ZOMBIE STOCKS: WALKING DEAD OR GREAT TRADING OPPORTUNITY? – PAGE 38

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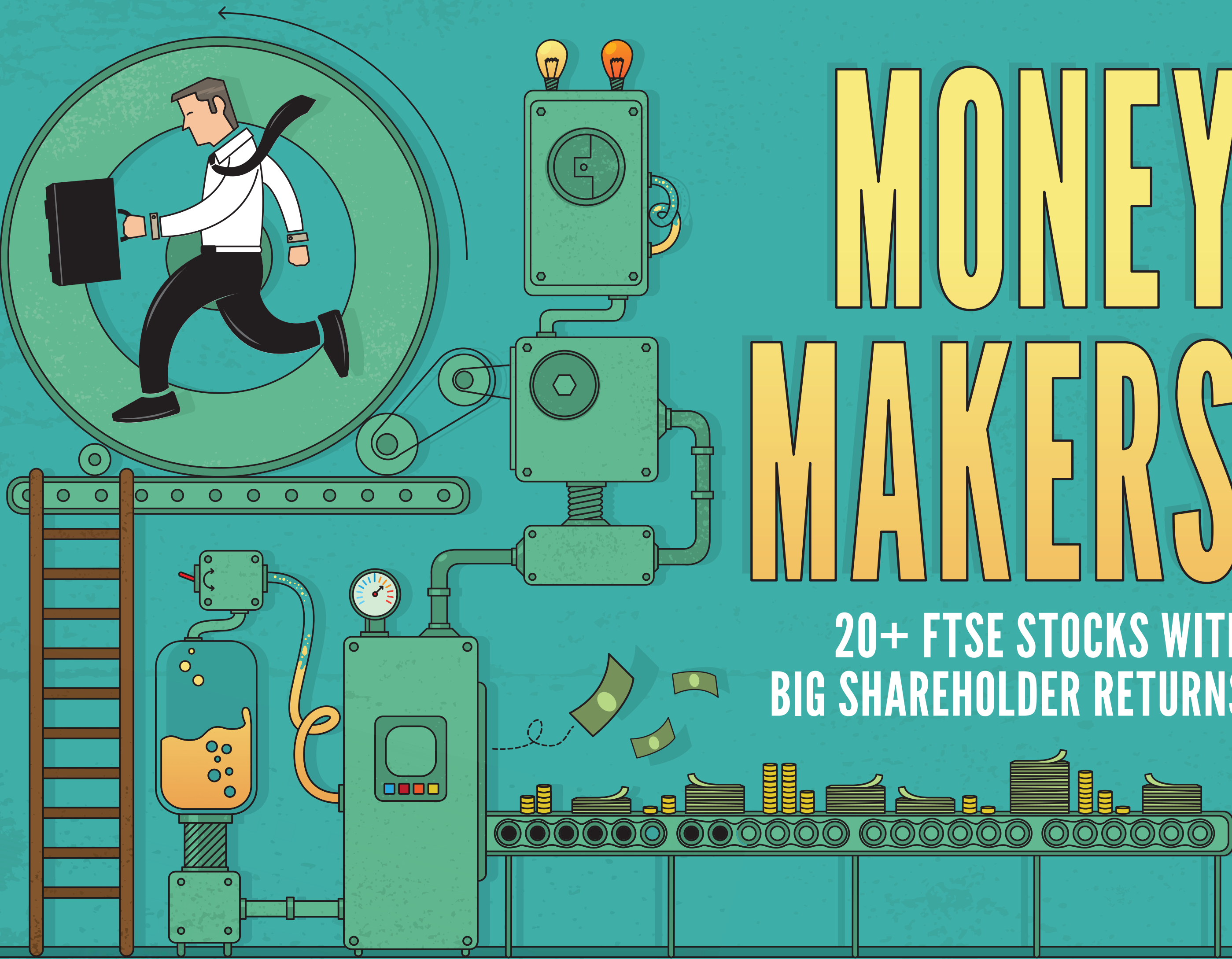

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# Reading the market mood

*UK investors seem relatively happy; but will sentiment be derailed by events in the US?*

DANIEL COATSWORTH

You can tell a lot about the mood of the market by the questions asked by investors and the topics in which they are most interested. I would hazard a guess that the current mood is cautious but determined to prosper; recognising the importance of knowing how to make the best decisions in order to avoid foolish mistakes in the future. At least that was my conclusion from people attending **The Stock Market Show** on 12 September.

The atmosphere certainly didn't seem to reflect the performance of the major stock market indices. If we take the FTSE 100, a near-14% drop since May would imply investors are in a negative frame of mind. They would have good cause to be upset, given the implications of China's ongoing economic setbacks to the West, commodity price volatility, uncertainty over the direction of interest rates and a surprise shift in the political landscape in the UK (and Australia).

But what if you assembled more than a thousand investors in a single location and tried to determine their mood? While we didn't explicitly canvass attendees' opinions at *The Stock Market Show last weekend, an event run by* Shares in partnership with the London Stock Exchange, I did chat with countless people on the day and not a single person expressed any panic at the current state of global markets. The overriding message was one of enthusiasm towards finding the best solution to make money over the long-term.

## KEEP YOUR CHIN UP

Yes, we had some people at the event asking about the best time to sell stocks; others talked about the merits of shorting stocks and indices during current market volatility, so that they could employ a hedge and avoid having to liquidate all their 'long' holdings.

What I definitely did not see was any significant fear among investors. Neither was anyone asking for that 'sure-fire red hot tip' to make a quick buck that is often the major talking point at investor conferences. Instead, it was a venue full of individuals with a wide range of investment experience, from amateurs to professionals, all united by the desire to find the best way to construct and maintain their portfolios.

It was particularly pleasing to see such a healthy interest in exchange-traded funds. Attendees were eager to know how the low-cost products can play an important part in creating a diversified investment portfolio. And the panel session I chaired on investing for income attracted a full room at **The Stock Market Show**.

I felt the room sit up straight when the panel discussed how dividends had made up a large slice of overall returns for shareholders during bear markets. And that brings me back to investors' mood and why people were right to have a cautious tone. While I liked the fact that attendees were focused on getting the most from investing and avoiding losses, one must ask why few people seemed overly-nervous. After all, there is a growing risk that a US interest rate could knock global stock markets truly off balance, even if just temporarily.

## CAUTIOUS IS RIGHT

Investors need to be cautious in the near-term. You might have come away from **The Stock Market Show** feeling that you have identified the products and strategies in which to create future wealth, yet rushing in now to buy everything to fill your portfolio could be a mistake.

The day this article is published (17 Sep) may represent a new turning point in global markets, as it is the point at which the US Federal Reserve could finally raise interest rates. As I write, *Bloomberg* is running an article entitled 'Fed Rate Hike: Catastrophic for investor confidence?'. Don't dismiss this as sensationalist journalism.

With Hargreaves Lansdown reporting that UK investor confidence hit a 2015 high in August, you might wonder why the fuss over what the US decides to do.

What happens over the pond has relevance to global stock markets. The most extreme view is that US interest rate hikes could trigger a new global debt crisis.

A new report from the Bank for International Settlements highlights early warning indicators surrounding debt in emerging markets. It says US interest rates have a 'statistically and economically significant impact' on corresponding rates in emerging market and smaller advance economies.

The past few years with the Greek debt crisis and China economic growth wobble have been proof that UK stock markets can be heavily influenced by events in other parts of the world. With many negative signs on the horizon, it really is important that you develop good portfolio construction and management skills. It is definitely the time to employ diversification and not have all your money riding on a handful of stocks.

SHARES

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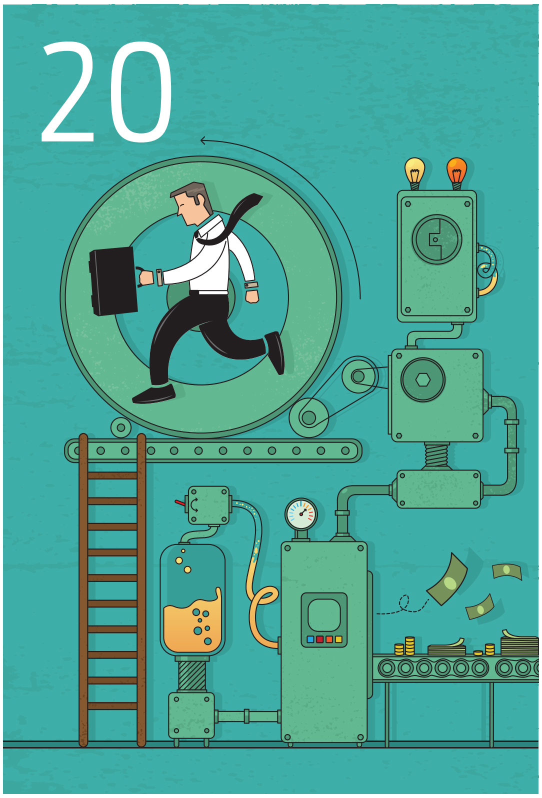




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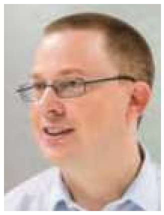

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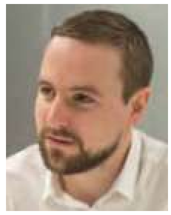

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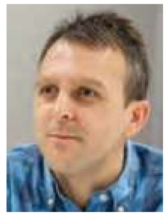

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BROKER RATING: ● SELL ● HOLD ● BUY ● NOT AVAILABLE

# Wetherspoon needs a detox

*Cheap volume-led strategy is losing traction*

EMILY PERRYMAN

Price discounting at pub chain **JD Wetherspoon (JDW)** isn't generating enough volume growth to compensate for the damage to its margins, the decline of which took an estimated £12 million off pre-tax profit in 2015.

Pre-tax profit fell by 2% to £77.8 million in the 12 months to 31 July, £0.5 million below consensus forecasts. A 3.3% rise in like-for-like sales was insufficient to offset an 80 basis points fall in EBIT (earnings before interest and tax) margins to 7.4%.

Wetherspoon has previously defended its cheap pricing by claiming it boosts the profit per pub, but this test is also failing. EBIT per pub fell by 7% in 2015, according to estimates by stockbroker Numis.

We warned Wetherspoon's figures would disappoint in our results preview in the 10 September issue of *Shares*. Its focus on value and volume is losing traction as customers switch to premium food and drink offerings.

'This is best illustrated by the fact that whilst sales have been growing by c. £565 million in the last five years, EBITA has only nudged up by £16 million. Not a convincing conversion rate in anybody's books,' says N+1 Singer analyst Sahill Shan.

The £8.3 billion cap is spending an average of £2.1 million on each new pub, compared with £1.6 million a year ago. This is partly due to four new pubs having hotel accommodation and a 20% increase in the average pub size. Net debt to EBITDA has reached 3.4 times and the group has now cut its expansion guidance to 15 to 20 pubs in FY2016 from 25 previously.

Wetherspoon has started the first quarter on a poor note with like-for-like sales growth of just 1.4%. 'This further underpins our thesis of how difficult and competitive it is in the pubs and restaurants sector at the present owing to excess capacity and cannibalisation,' says Shan.

Numis forecasts pre-tax profit growth of 2.7% to £79.9 million in FY2016 but margins are expected to fall by another 35 basis points, mainly due to Wetherspoon's proposed 8% rise in starting pay which came into effect at the end of July.

**SHARES SAYS:** ▲▼

**Wetherspoon's share price has fallen by 14% this year to 701.5p and we think this trend will continue as its discounting strategy doesn't sit well with the changing tastes of pub-goers. Its cheap breakfasts, 99p coffee and cut price drinks are likely to weigh on margins for the foreseeable future.**

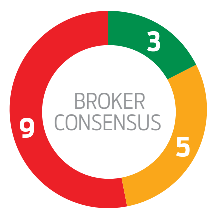
## SWOT ANALYSIS

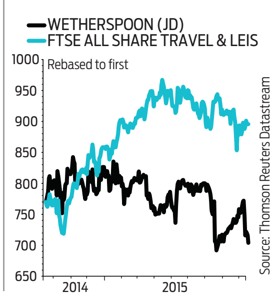
### STRENGTHS
- Well-known brand
- Performs well in economic blips

### WEAKNESSES
- Focuses on cheap volume-led sales
- Declining margins
- High opening and repair costs

### OPPORTUNITIES
- Create a more premium offering
- Better cash conversion

### THREATS
- Supermarket competition
- Restaurant/pub competition
- National living wage



# Corbyn: Winners and losers

*Investment landscape to change if new Labour leader becomes PM in 2020*


MARK DUNNE

GROWTH, NOT AUSTERITY, appears to be at the heart of the new-look Labour's economic plan following the appointment of Jeremy Corbyn as the party's new leader on 12 September. Banks, pubs, letting agencies and utilities are the industries that could be hit hard if Corbyn is elected prime minister in 2020, but construction companies look better placed to thrive given aspirations for greater infrastructure-related spending.

There are concerns that Britain's pro-business reputation could be at risk if Corbyn eventually becomes prime minister. In particular, his appointment of John McDonnell as shadow chancellor has not been well received with market commentators pointing to his 'radical socialist' stance.

McDonnell has previously argued in favour of 60% top rate of tax for those earning over £100,000; he has also called for higher taxation in the City and a maximum wage for bosses.

Corbyn is in favour of bringing the railways and **Royal Mail (RMG)** under State control along with the big six utility companies.

McDonnell has talked of seizing control of the bailed-out banks, which would mean **Lloyds Banking (LLOY)** and **Royal Bank of Scotland (RBS)** being re-nationalised. 'While we do not expect this policy to be retained, Mr Corbyn has warned that banks would face a hefty one-off windfall tax if elected,' comments Investec, adding that the new Labour leader is generally opposed to private sector involvement in public services. 'For example, he would buy out PFI hospital building contracts immediately.'

A potential plan to raise the minimum wage to £10 an hour would hit labour-intensive companies. Corbyn has also pledged to ban zero-hours contracts which are widely used in the retail and service sectors.

He has advocated more rights for private tenants which includes implementing rent controls. This could reduce buy-to-let investors' income and thus lower management fees for letting agencies. **Belvoir Lettings (BLV:AIM)** and **MartinCo (MCO:AIM)** could be losers.

Construction companies could be possible winners under a Corbyn regime. He would like to establish a national investment bank to fund infrastructure and technology projects. Peoples' QE (quantitative easing) is expected to play a role, with the Bank of England printing money to purchase bonds from a proposed national investment bank. This money would be used to make infrastructure investments to support economic growth, but there are fears it could also stoke inflation.

**CORBYN AN OUTSIDER FOR PM**

| | |
|---|---|
| George Osborne | 15/8 |
| Boris Johnson | 9/2 |
| Jeremy Corbyn | 8/1 |
| Theresa May | 12/1 |

Source: Oddschecker, 15 Sep 2015

## SNP plots indie vote

THE SCOTTISH parliament holds its elections in 2016 and the 'triggers' for a second independence vote for the country, such as the UK exiting the European Union, will be written into the Scottish Nationalist Party's (SNP) manifesto, according to leader Nicola Sturgeon.

More than half (55%) of Scots 12 months ago voted against becoming an independent country. A second independence referendum could prompt another wave of market volatility.

Issues over compliance, tax and the cost of funding would hit **Royal Bank of Scotland (RBS)**, while utility companies such as **SSE (SSE)** could lose the hefty subsidies that help fund renewable energy projects.

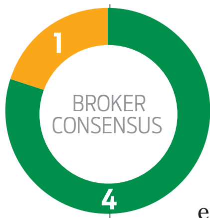
Contractor **Babcock International (BAB)** would be another loser from a vote to leave the UK as it has naval operations on the Clyde, exposure to North Sea oil and gas investment and rail and nuclear operations in Scotland. (MD)

# Get in quick on Pace

*Arbitrage opportunity around Arris takeover approach*

STEVEN FRAZER

Volatile stock markets have helped to create a short-term arbitrage trading opportunity at set-top box manufacturer **Pace (PIC)**, with between 10% and 16% upside on the cards and potentially limited downside risk.




Saltaire-based Pace is in the middle of a long-winded takeover situation having recommended a cash and shares offer made by US peer **Arris (ARRS:NDQ)** on 23 April.

The agreed deal was made on the basis of 0.1455 Arris stock per Pace share, plus a 132.5p cash payout, originally valuing the business at up to 484p per share by some analysts. Pace shares had been trading at 332p on 22 April.

As you'll note from the chart, that news sparked a huge rally in the UK company's share price, the stock soaring to 447p by the close of business the day following the announcement (23 April).

Arris shares, which had closed on 22 April at $30.54, also jumped on the news, closing the next day at $37.30, demonstrating the strong support for the merger on both sides of the Atlantic.

Stock markets across the globe have since been flung into disarray, weighing heavily on the market valuations of Pace and Arris alike. Shares in the Nasdaq-quoted US group are currently changing hands for $27.47, approximately 10% down on their level before the Pace deal was announced. Pace has suffered similarly, last month hitting a low of 323p before bouncing modestly to the current 355p.

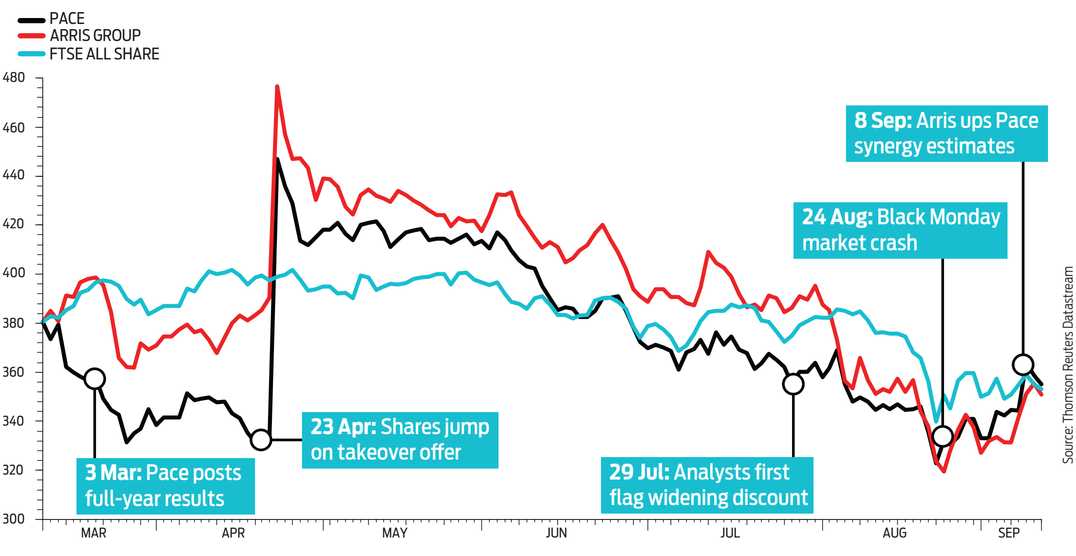
Analysts believe this has opened a valuation gap that will narrow as the deal moves towards completion, anticipated some time over the next three months. The chief threat to that happening is a Department of Justice (DoJ) antitrust investigation into the takeover, aimed at ensuring a competitive playing field in this broadcast communications niche market.

While the outcome is not guaranteed analysts have always remained confident that the DoJ would allow the deal through, a view that has strengthened after recent comments by Arris over the likely synergy cost savings of the merger.

On 8 September Arris released a brief statement saying that it expected the acquisition of Pace to add between $0.65 and $0.75 to its earnings per share (EPS) within 12 months, substantially higher than its original $0.45 to $0.55 value enhancement estimate. Analysts at broker Liberum have since pointed out that it seems unlikely that the US firm would 'release positive data unless they were confident of getting approval.'

**SHARES SAYS:** ▲▼

**Liberum thinks the offer is worth 412p to Pace shareholders having recalculated its estimates, or 16% above current levels. If we assume a Pace base valuation of the pre-merger 332p, which implies a free cash flow yield of around 11% and price to earnings multiple of just 8.7, buying the shares appears to have decent upside for limited risk.**




## London pubs outperform

LONDON-BASED pubs are experiencing stronger like-for-like sales growth than the rest of the country and are outperforming restaurants in the capital, according to the latest Coffer Peach Tracker. Our top picks are **Young & Co's Brewery (YNGA:AIM)** at £12 and **Fuller, Smith & Turner (FSTA)** at £11.63, both of which are likely to benefit from the upcoming Rugby World Cup. (EP)

## CloudBuy in peril

ELECTRONIC PURCHASING minnow **CloudBuy (CBUY:AIM)** could be close to collapse after being ditched by its nomad Westhouse Securities, forcing a suspension of share trading. The £24.7 million cap will miss £4 million revenue targets this year to 31 December, and with just £2.9 million of cash on its books, may struggle to fund itself through to the year end. (SFr)

## Sportech's fantasy move

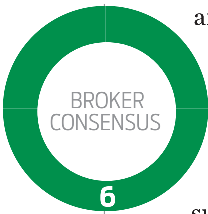
FOOTBALL POOLS operator **Sportech (SPO)** has formed a joint venture to exploit the growth of fantasy sports games in the US. Trading at 64.5p, it's currently the subject of a potential takeover approach by Canadian rival **Contagious Gaming (CNS:CVE)**. (EP)



# Hilton's packed with potential

*Meat packing play's payout surprise sends positive signal*

JAMES CRUX




Catalysts are stacking up at retail meat packing company **Hilton Food (HFG)**, one for growth and income investors alike. Though interims (8 Sep) revealed a 2.2% sales dip to £579.2 million amid strong currency headwinds, volume growth has returned to key parts of the business.

At constant currency, Hilton's operating profit was actually 11.3% higher, though earnings per share was broadly flat at 13.2p. This means Hilton's proposed 7.9% dividend hike to 4.1p is highly significant, demonstrating balance sheet strength and management confidence in future profit growth and cash generation.

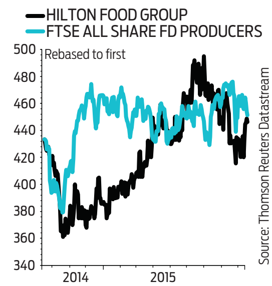
For the full year, Shore Capital forecasts improved continuing pre-tax profit of £25.6 million (2014: £25.2 million), ahead of a £30.7 million pre-tax profit haul next year for earnings of 29.9p (2015: 24.9p). Net debt should be virtually eliminated by the current year-end, before net cash balances build to £14.1 million and £30.4 million in 2016 and 2017 respectively.

Encouragingly, UK volumes are building under a new deal with **Tesco (TSCO)** and investors can expect a meaty contribution from Hilton's Australian joint venture with supermarket **Woolworths (WOW:ASX)**, where production has now commenced.

Not included in Shore Capital's forecasts are the potential benefits arising from a strong relationship with retail customer **Ahold (AH:NA)**, which means Hilton should prove a medium-term beneficiary of the aforementioned's merger of equals with **Delhaize (DELB:BB)**.

**SHARES SAYS:**

**At 446.25p, Hilton is worth owning for its international expansion possibilities and attractive yield, 3.2% based on this year's forecast 14.4p payout.**




# Chrysalis time for Seeing Machines

*Exciting next growth phase starts for driver fatigue solutions specialist*

STEVEN FRAZER

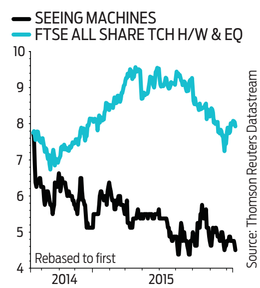
DRIVER FATIGUE SYSTEMS supplier **Seeing Machines (SEE:AIM)** has completed the final phase of its landmark agreement with **Caterpillar (CAT:NYSE)** a good year ahead of plan. While this may create some short-term uncertainty over the details of how the company goes forward, it should also act as a valuable proof point of the company's longer-run strategic execution and act as catalyst for a share price re-rating.

Under the terms of the agreement the US industrial vehicles giant will take complete control of Seeing Machines off-road DSS platform, including manufacturing, marketing, sales and all operations, where is has the sector positioning and customer base to substantially ramp-up market penetration. Seeing Machines, which saw its shares rise close on 3% on the news to 4.62p, will receive a one-off $17.5 million payment from Caterpillar spread over the next four years, plus licensing and royalty fees based on sales success.

This business model transformation has seen analysts at FinnCap suspend forecasts pending details of how management will drive the business forward in future, although that should come quickly, with Seeing Machines due to publish full year results to 30 June next week (21 Sep). The Australia-based business has identified new markets for its fatigue management systems, including automotive, rail and even in consumer electronics, although its prime, and arguably biggest, opportunity is in truck fleet management.

**SHARES SAYS:**

**We think there is substantial opportunity for a re-evaluation of the investment case with significant share price upside down the line. FinnCap has previously valued the shares at 12p.**



# Laura Ashley's in fashion

*Iconic British brand has upgrade and re-rating scope*

JAMES CRUX

Fulham-based fashion-to-homewares retailer **Laura Ashley (ALY)** remains worth a look for its re-rating scope. The heritage home furnishings firm looks poised to fashion an improved second half performance, supported by rising consumer confidence and any pick-up in housing-related spend.

Interims (9 Sep) were held back by a weak overseas franchising and licensing performance, primarily reflecting poor trading in Japan. Yet *Shares* notes some positive underlying trends in the announcement. UK profits were sharply up on 7% growth in like-for-like sales, boosted by 10% like-for-like growth in furniture and home accessories as well as an online flourish.

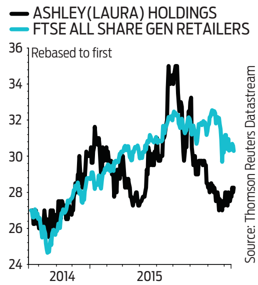
The £204 million cap also closed a net seven stores under its ongoing restructuring drive, improving the quality of earnings. Furthermore, management foresees improved overseas results in a second half that is already off to a positive start. Laura Ashley held the half-time payout at 1p and closed the period with £20.2 million net cash, meaning it has the balance sheet strength to invest behind its iconic British brand.

Cantor Fitzgerald reiterates its 'buy' rating and 35p target price, implying 24% potential upside.

Based on Cantor's forward earnings per share estimate of 2.5p and a projected payout of 2p, the shares trade at a sector discount and offer an attractive dividend yield of 7.1%.

**SHARES SAYS:** ▲

**At 28.25p, the shares trade on a prospective PE ratio of 11.3, undemanding given the brand's global growth potential and scope for online development.**


# Middle East heats up Chemring

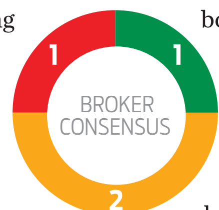
*Defence contractor's second-half set to deliver*

SEÁN FLYNN

CONFLICT IN THE Middle East is driving recovery at countermeasures and munitions specialist **Chemring (CHG)** as strong order intake from the region lifts group revenues and forward orders.

Shares in the £444.6 million are almost 4% lower year to date at 230.75p but a 14 September trading update confirms that despite a pretty poor set of interims, the group remains on track to deliver full year results in line with expectations.

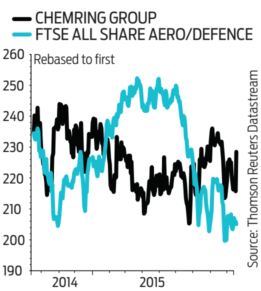
Revenue in the four month period to 31 August 2015 was £119 million, an increase of 23.8% compared with £96.1 million in the same period last year. An 18% rise in the company's order book between the end of April and August was boosted by rising demand for 40mm ammunition from a Middle Eastern customer which has generated £100 million for the group.




There is a noteworthy cloud on the Chemring horizon. The Romsey-headquartered firm expects a US order for non-standard ammunition announced in June, to be cancelled in the fourth quarter.

**SHARES SAYS:** ▲

**Investec sets a target of 240p and while rising debt could be a problem we remain positive for now.**



## RESULTS

### MONDAY 21 SEPTEMBER

**Final**

| | |
|---|---|
| Castleton Technology | CTP |
| Finsbury Food | FIF |
| Seeing Machines | SEE |

**Interim**

| | |
|---|---|
| Netdimensions | NETD |
| XLMedia | XLM |

### TUESDAY 22 SEPTEMBER

**Final**

| | |
|---|---|
| Clinigen | CLIN |

**Interim**

| | |
|---|---|
| AA | AA. |
| Barr (A G) | BAG |
| Card Factory | CARD |
| Clearstar | CLST |
| Horizon Discovery | HZD |
| Minds + Machines | MMX |
| Porta Communications | PTCM |
| Sphere Medical | SPHR |
| Venn Life Sciences | VENN |

### WEDNESDAY 23 SEPTEMBER

**Final**

| | |
|---|---|
| Pan African Resources | PAF |
| Smiths | SMIN |

**Interim**

| | |
|---|---|
| Styles & Wood | STY |

### THURSDAY 24 SEPTEMBER

**Interim**

| | |
|---|---|
| SciSys | SSY |
| SVG Capital | SVI |

### FRIDAY 25 SEPTEMBER

**Final**

| | |
|---|---|
| Asian Citrus | ACHL |

## AGM/EGM

### FRIDAY 18 SEPTEMBER

| | |
|---|---|
| Kuala | KUL |
| Legendary Investments | LEG |

### MONDAY 21 SEPTEMBER

| | |
|---|---|
| Abzena | ABZA |

### TUESDAY 22 SEPTEMBER

| | |
|---|---|
| AFH Financial | AFHP |
| Bank of America | BAC |
| HML | HMLH |
| Spark Ventures | SPK |
| Velox3 | VLOX |

### WEDNESDAY 23 SEPTEMBER

| | |
|---|---|
| Alcentra European Floating Rate Income Fund Red | AEFS |
| Arricano Real Estate | ARO |
| Begbies Traynor | BEG |
| First Property | FPO |
| Imaginatik | IMTK |
| Real Good Food | RGD |
| Twentyfour Income Fund | TFIF |

### THURSDAY 24 SEPTEMBER

| | |
|---|---|
| AorTech International | AOR |
| Penna Consulting | PNA |
| Ryanair | RYA |
| Tungsten | TUNG |
| Vectura | VEC |

### FRIDAY 25 SEPTEMBER

| | |
|---|---|
| Empyrean Energy | EME |
| Sirius Minerals | SXX |

## TRADING STATEMENTS

### WEDNESDAY 23 SEPTEMBER

| | |
|---|---|
| United Utilities | UU. |

### THURSDAY 24 SEPTEMBER

| | |
|---|---|
| Daily Mail and General Trust | DMGT |
| Euromoney Institutional Investor | ERM |
| Thomas Cook | TCG |

## EX-DIVIDEND

### THURSDAY 24 SEPTEMBER

| | | |
|---|---|---|
| Aquatic Foods | AFG | 0.7p |
| Avarae Global Coins | AVR | 0.15p |
| Boot (Henry) | BHY | 2.3p |
| Best Of The Best | BOTB | 1.2p |
| Bovis Homes | BVS | 13.7p |
| Capital Lease Aviation | CLA | 2p |
| Crest Nicholson | CRST | 6.4p |
| Consort Medical | CSRT | 11.68p |
| Diverse Income Trust | DIVI | 0.5p |
| Drax | DRX | 5.1p |
| Dignity | DTY | 7.14p |
| EMIS | EMIS | 10.6p |
| Essentra | ESNT | 6.3p |
| Gamma Communications | GAMA | 2.2p |
| Henderson High Income Trust | HHI | 2.28p |
| Hargreaves Services | HSP | 20p |
| Ladbrokes | LAD | 1p |
| Murray Income Trust | MUT | 11p |
| Norish | NSH | €0.02 |
| Old Mutual | OML | 2.65p |
| Oxford Instruments | OXIG | 9.3p |
| Pendragon | PDG | 0.6p |
| Playtech | PTEC | €0.1 |
| Quarto | QRT | 3.35p |
| Redrow | RDW | 4p |
| Stadium | SDM | 0.9p |
| Small Companies Dividend Trust | SDV | 1.7p |
| Servelec | SERV | 1.65p |
| Vitec | VTC | 9.5p |
| Wynnstay | WYN | 3.7p |

### FRIDAY 25 SEPTEMBER

| | | |
|---|---|---|
| Severstal | SVST | $0.2 |

## ECONOMICS

### FRIDAY 18 SEPTEMBER

**EU**

Current Account

**US**

CB Leading Index

**JP**

Monetary Policy Meeting Minutes

TRADING STATEMENTS ► THURSDAY 24 SEPTEMBER

# Thomas Cook

## (TCG) 116.3p

INVESTORS WILL BE looking for travel operator **Thomas Cook (TCG)** to echo the positive commentary on the summer holiday season we've already seen from the low-cost airlines like **Ryanair (RYA)** and **EasyJet (EZJ)** in next week's (24 Sep) update. The £1.7 billion cap – which has its origins in the 19th century – will unveil a pre-close update covering the 12 months to end of September. As well taking the temperature of its summer trading, there is also likely to be focus on the joint venture with its Chinese backer **Fosun (0656:HK)** aimed at establishing a footprint in the world's second largest economy. In the run up to the release speculation is mounting that Fosun, which bought a 5% stake in Thomas Cook for £92 million in March (6 Mar), could launch a bid for the remainder of the company. (TS)

### MONDAY 21 SEPTEMBER

**EU**

German PPI

German Buba Monthly Report

**US**

Existing Home Sales

### TUESDAY 22 SEPTEMBER

**UK**

BBA Mortgage Approvals

**EU**

French Flash Services PMI

French Flash Manufacturing PMI

German Flash Services PMI

German Flash Manufacturing PMI

Flash Services PMI

Flash Manufacturing PMI

Consumer Confidence

**US**

HPI

Flash Manufacturing PMI

Richmond Manufacturing Index

**JP**

Flash Manufacturing PMI

### WEDNESDAY 23 SEPTEMBER

**UK**

CBI Realised Sales

**EU**

German Ifo Business Climate

### THURSDAY 24 SEPTEMBER

**EU**

Italian Retail Sales

Targeted LTRO

Belgian NBB Business Climate

**US**

Core Durable Goods Orders

Unemployment Claims

Durable Goods Orders

Flash Services PMI

New Home Sales

### FRIDAY 25 SEPTEMBER

**UK**

Index of Services

EU

GfK German Consumer Climate

Private Loans

M3 Money Supply

**US**

Final GDP

Final GDP Price Index

Revised UoM Consumer Sentiment

Revised UoM Inflation Expectations

**JP**

SPPI

Source: Moneyam

# BP value call

*Chairman snaps up shares at bombed out price*

TOM SIEBER

The chairman of FTSE 100 oil and gas company **BP (BP.)** clearly believes the £60.2 billion cap is oversold and so do we.

Swede Carl-Henric Svanberg snapped up nearly £3.5 million worth of shares at 343p (7 Sep) and at the current 330p the shares are not far off the lows hit in the aftermath of the April 2010 Deepwater Horizon rig disaster and subsequent Gulf of Mexico oil spill. With the remaining liabilities from this event largely defined it is possible to take a clearer view on the valuation case.

The stock currently trades on a 2016 price to earnings ratio of 12.2 and yields 7.9%. There is certainly the possibility of a dividend cut given the likely shortfall in cash flow and earnings implied by the lower oil price but we think this risk has been priced in.

BP has been notably conservative in its discussion of the future direction of crude. The cost savings it has achieved and the continuing pressure it can bring to bear on its suppliers and service providers should ensure it can withstand the current depressed prices.

**SHARES SAYS:** ▲▼

**We have previously noted Investec's take on integrated oil and gas plays which suggests cost adjustments mean 'upstream profitability is independent of the oil price – costs adjust over time and the margin remains intact'. If this is true then BP could represent exceptional value.**

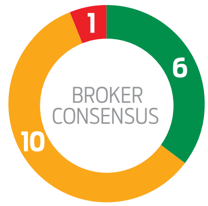
### THE TRADE

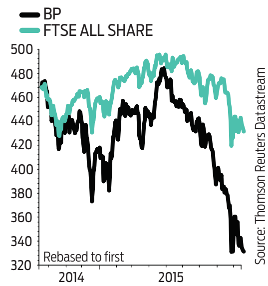
**Buyer:**
Carl-Henric Svanberg, chairman

**Consideration:**
£3.43 million

**No. of shares bought:**
1,000,000

**Subsequent holding:**
n/a




## DEALS THIS WEEK

| Company | Director | Pos. | Date | Price (p) | No. of shares | Value (£) |
|---|---|---|---|---|---|---|
| **TOP BUYS** | | | | | | |
| **BP** | **Carl-Henric Svanberg** | **CH** | **07/09/15** | **343.08** | **1,000,000** | **3,430,770** |
| bwin.party digital entertainment | Philip Yea | CH | 08/09/15 | 106.4 | 100,000 | 106,400 |
| bwin.party digital entertainment | Barry Gibson | NED | 08/09/15 | 105.57 | 50,000 | 52,785 |
| Aberdeen New Dawn Investment Trust | John Lorimer | NED | 09/09/15 | 152.19 | 12,500 | 19,023 |
| Industrial Multi Property Trust | Donald Lake | NED | 07/09/15 | 113.5 | 15,000 | 17,025 |
| Puretech Health | Dr John LaMattina | NED | 08/09/15 | 147.08 | 11,000 | 16,179 |
| Elegant Hotels | Nicholas Basing | NED | 07/09/15 | 108.99 | 10,000 | 10,899 |
| **TOP SELLS** | | | | | | |
| Telit Communications | Enrico Testa | CH | 08/09/15 | 345 | 500,000 | 1,725,000 |
| British Land Co | Tim Roberts | ED | 07/09/15 | 801.26 | 48,859 | 391,488 |
| McKay Securities | Simon Perkins | MD | 08/09/15 | 260 | 147,564 | 383,666 |
| British Land Co | Lucinda Bell | FD | 07/09/15 | 801.26 | 44,505 | 356,601 |
| British Land Co | Charles Maudsley | ED | 07/09/15 | 801.26 | 44,505 | 356,601 |
| British Land Co | Chris Grigg | CEO | 07/09/15 | 801.26 | 33,938 | 271,932 |
| McKay Securities | Giles Salmon | FD | 08/09/15 | 260 | 68,070 | 176,982 |
| McKay Securities | Steven Mew | ED | 08/09/15 | 260 | 57,582 | 149,713 |
| Hays | Alistair Cox | CEO | 07/09/15 | 156.02 | 82,863 | 129,283 |
| Hays | Paul Venables | FD | 07/09/15 | 156.02 | 59,744 | 93,213 |
| Aukett Swanke | Nick Pell | ED | 07/09/15 | 5.6 | 400,000 | 22,400 |
| Jupiter Fund Management | Philip Johnson | FD | 09/09/15 | 452.7 | 4,900 | 22,182 |

### Key

| | |
|---|---|
| CD | commercial director |
| CEO | chief executive officer |
| CED | chief executive of division |
| CFO | chief financial officer |
| CH | chairman |
| COO | chief operating officer |
| CS | company secretary |
| D | director |
| DCH | deputy chairman |
| ECH | executive ch |
| ED | executive director |
| FD | finance director |
| MKD | marketing director |
| NECH | non-executive chairman |
| NED | non-executive director |
| OD | operations director |
| SD | sales director |
| SEC | secretary |

12-MONTH PROFIT ON ALL 'PLAYS OF THE WEEK' TRADES: **+10.1%** VS. FTSE ALL-SHARE: **-7.9%***

# Check in to Whitbread

*Market's overreaction to soft August trading is a buying opportunity*

EMILY PERRYMAN

Share price weakness at Premier Inn and Costa owner **Whitbread (WTB)** is a buying opportunity ahead of a boost in sales driven by the Rugby World Cup and a strengthening UK economy.

The £8.3 billion cap's share price has fallen by 13% over the past six months to £46.29 on concerns about competition in the UK, the new national living wage and softer August trading. We think the market has overreacted.

Like-for-like sales grew by just 3.3% in the 24 weeks to 13 August, 1% below analysts' expectations, but this was in the face of tough comparatives from last year's Commonwealth Games and Farnborough Airshow.

## COLD COMFORT

August also had wetter and colder weather than last year, which coupled with improving consumer sentiment, resulted in more people going on holiday abroad. The third quarter is expected to be much stronger.

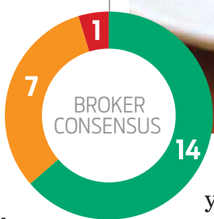
'We think it would be wrong to extrapolate August trading into a trend. Whitbread had a remarkable August last year with Premier Inn [like-for-like sales up by] 11.3% and Costa [up by] 9%. This year like-for-likes were +1.6% and +2.0%, respectively. August is a big leisure month and it's been a good year for the tour operators,' says Canaccord Genuity analyst Nigel Parson.

Despite the tough comparatives Costa and Premier Inn are trading well, with total sales up by 11.8%. In London Premier Inn recorded total sales growth of 21.1% driven mostly by new supply. Occupancy is running at an impressive 92.2%, which shows the new hotels aren't cannibalising existing room stock.

Trading in Premier Inn is expected to strengthen as a result of the Rugby World Cup, which starts on 18 September. Two million live tickets have been sold so there is likely to be a horde of rugby fans travelling to London, driving up room rates and occupancy rates in London-based hotels.

'Longer term, Whitbread's market leading positions in budget hotels and coffee shops leave it well placed to grow strongly for at least a decade in our view,' says Parson.

Whitbread aims to have 85,000 UK hotel rooms and £2.5 billion of Costa sales by 2020, which should be achievable given its market leading positions in the fragmented yet growing UK hotel and coffee shop markets. Parson says investors don't need to worry about it hitting market saturation for at least a decade and by that time it's likely to have sorted out its international expansion, which has so far been slow.


## IMPROVING RETURNS

Canaccord Genuity estimates earnings per share to grow to 402.3p by 2020 from 212.2p in 2015, giving an impressive compound annual growth rate (CAGR) of 13.6%. There is a strong possibility of earnings upgrades given the early-stage economic recovery of the UK. 'It has been improving returns for the last decade and we forecast these returns to continue,' says Parson.

Whitbread is trading on a forward price to earnings ratio of 19.1, which seems reasonable given its long-term growth prospects. The biggest worry is the introduction of the new national living wage in April, which the company admits will be a substantial cost increase. It aims to mitigate this through selective price increases and efficiency savings.

**WHITBREAD**
(WTB) £46.29
**Stop loss:** £37.03

**▲ BUY**

**Market value:**
**£8.3 billion**

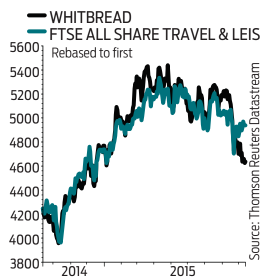
**Prospective PE Feb 2016:**
**19.1**

**Prospective PE Feb 2017:**
**16.7**

**Prospective dividend yield:**
**2.0%**

**Bid/offer spread:**
**0.04%**

**Analyst price target:**
**£60.00**
(Canaccord Genuity, 9 Sept 2015)




**Growth: HIGH**
Earnings per share CAGR of 13.6% until 2020

**Risk: MEDIUM**
Whitbread needs to manage the cost of the national living wage

**Quality: HIGH**
Market-leading brands, strong track record of growth

* FTSE All-Share comparative performance is from start of each Plays trade until present. The portfolio consists of 100 stocks and runs on a 12-month rolling basis. There are 78 open positions; we have taken profits or the stop loss has been triggered on the remaining stocks. In the past 12 months, the FTSE All-Share is down by 7.6%.

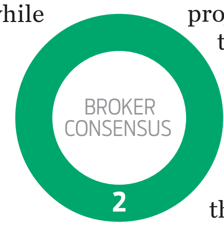
BROKER RATING: ● SELL ● HOLD ● BUY ● NOT AVAILABLE

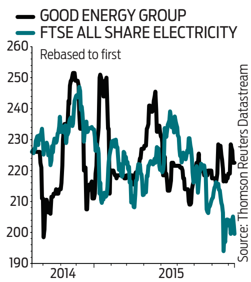
# Good, no bad or ugly

*Niche renewables-only energy supplier with long-run capital and income appeal*

STEVEN FRAZER

Many companies make hay while the sun shines but when it comes to energy supply it's the colder months when consumers tend to get the itch to switch. Smaller, independents have been nicking customers, and market share, off the Big Six, so ahead of the winter months is the right time to look at **Good Energy (GOOD:AIM)**. The advantages it enjoys suggest substantial upside for the shares over the coming years.




## RELATIVE NEWCOMER

As one of the UK's renewables-only energy suppliers, Good Energy joined AIM a little more than three years ago (30 Jul '12) raising a fairly modest £4 million at 85p. That opened the company up to a wider investor base, one that has proved very supportive since. A further £2.7 million equity raise was pulled off at 125p in July 2013 with a Good Energy retail bond following in October of the same year. The company was only looking for about £5 million from that issue, what it ended up with was the £15 million maximum allowed under the subscription process.

One of the things consumers like about the company is that policy of support for the UK's clean, green agenda, eschewing dirty fossil fuels in favour of climate change-friendly soar, wind and wave. Good Energy has come in the top two suppliers in the annual *Which?* customer satisfaction surveys in each of the last four years, and topped two consecutive MoneySavingExpert consumer polls.

This would seem to counter the argument that consumer switching is a price issue only. Good Energy lowered its tariffs in April this year (3.2% gas, 2.1% electricity) pitching it around the centre ground of the overall energy prices range, according to analysts at Investec, yet service levels and best environmental practise are increasingly becoming part of the switching calculations for customers. This should play to the company already strong credentials and appears born out by recent new customer growth (see table).

## GETTING ENERGISED

Current operational energy output stands a at 17.4 MW (megawatts) of wind and 30 MW of solar power producing around 65 GWh (gigawatt hours) by the end of 2015. There are also several projects in the pipeline, including an option to take a 10% stake in the massive 320 MW £1 billion Swansea Bay Tidal Lagoon project that is planned to live in 2019.

However, the planning process can be difficult, not everyone likes wind turbines and solar panels littering the countryside, and local politics and the Nimby (not in my back yard) brigade have forced a judicial review of planning consent handed to the company for a 24 MW solar farm in East Dorset.

But despite such hiccups the overall backcloth is enormously supportive of energy supply projects that can help the UK towards its decarbonisation targets, a huge challenge considering that coal and gas still account for close on half the UK's electricity output.

Investec estimates that this year's revenue could hit £78.7 million, implying pre-tax profit of £2.2 million. The broker sees the equivalent figures for 2016 and 2017 rising to £108 million and £130 million of revenues, meaning pre-tax profit of £2.5 million and £2.8 million respectively. But there is scope for sizeable dividend increases given the expected five-times earnings to payout ratio and a free cash flow yield expected to reach 8% or more by 2017. That suggests firm backing for share price capital gains supplemented by ever more attractive income streams.

**CONSUMERS TURNING TO GOOD ENERGY**

| Type | Jan-June Growth | 2015 vs 2014 |
|---|---|---|
| Electricity | 55,000 | 20% |
| Gas | 28,000 | 40% |
| Feed-in-Tariff | 93,500 | 42% |
| Total | 176,500 | 34% |

Source: Good Energy

**GOOD ENERGY**
(GOOD:AIM) 222.5p
**Stop loss:** 178p

▲ BUY

**Market value:**
**£33.3 million**

**Prospective PE Dec 2015:**
**18.2**

**Prospective PE Mar 2016:**
**16.5**

**Prospective dividend yield:**
**1.5%**

**Bid/offer spread:**
**2.22%**

**Analyst price target:**
**250p**
(Investec)

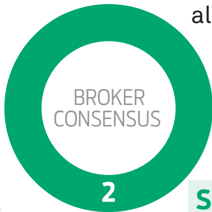
**Growth: MEDIUM**
Growing environmental awareness and easing switching paves the way for this niche energy supplier to win new customers and expand its output.

**Risk: MEDIUM**
Opposition to new projects could slow progress, while many consumers are proven reluctant to engage with supplier switching. New funding demands.

**Quality: HIGH**
Business nature provide decent visibility and support is likely to be loyal both from a customer and investor point of view. Strong free cash flow underpins payout and business investment.

## ACCESSO TECHNOLOGY (ACSO:AIM)

THIS WEEK'S (15 Sep) half-year results from the attractions software supplier are 'bang tidy,' to quote one market analyst, even if they may have been a little upstaged by recent big contract news, according to another. The traditionally quieter first half saw more than 60 new business wins across North America, South America and Asia, while its landmark contract win with global theme parks operator **Merlin Entertainment (MERL)**, after a brief pilot scheme, should be a growth engine for years to come. Sceptics will point to modest pre-tax losses of just over $1 million, but this a consequence of success, with cash needed to ply back into the business to seed the multitude of new agreements. It also reflects a modest uptick in interest payments thanks to last year's Showare acquisition. Expect the run of new business wins to carry on, and the company remains very happy it has the financial firepower to do so.



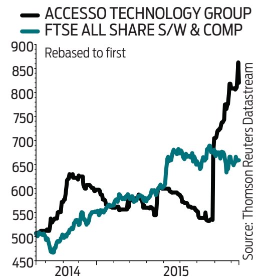

**SHARES SAYS:** ▲▼

**Readers that followed our *Play* idea at 556.5p on 19 February have been rewarded yet the real growth potential is arguably just beginning. CEO Tom Burnet believes the company could be a $1 billion business down the line, and while that may be a bold claim, we do think a bit of profit taking has created a long-run buying opportunity, even on a 2016 price to earnings (PE) multiple of 29.4. (SFr)**

**820p**

**Gain to date: 47.3%**

Previous *Shares* view:
Buy at 705p, 6 Aug 2015



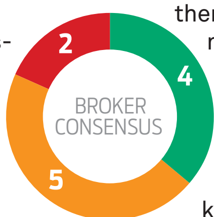


## DARTY (DRTY)

OUR BULLISH CALL on the recovery and growth potential of European televisions-to-washing machines purveyor **Darty (DRTY)** is 11.7% in the money. As we outlined in our original buy thesis – see *Plays*, 16 Jul '15 – the retailer's re-focus on core markets France, Belgium and the Netherlands, as well as its strategic emphasis on higher margin white goods, are both paying off.

Darty's first quarter trading update (10 Sep) highlighted continued market outperformance in its biggest market France, boosted by excellent growth in white goods, not to mention a welcome return to positive same-store sales growth in Belgium. Financial risk is reducing, with investors buoyed by news of a €65 million year-on-year net debt improvement as of the end of July, although there was disappointment in the form of major Netherlands sales disruption, caused by the implementation of a new warehouse system.

The good news is Darty has momentum in France, where it is geared into economic recovery, introducing a kitchens offer into more stores and rolling-out a franchised estate in order to secure market share in small towns. Its Mistergooddeal.com acquisition, helping Darty to access price-conscious consumers, is expected to approach break-even in the current financial year too.



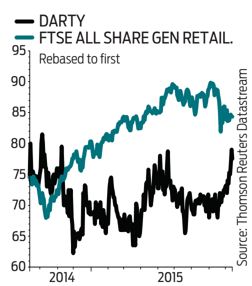

**SHARES SAYS:** ▲▼

**We remain positive on Darty's medium-term prospects, given positive momentum in France and ongoing progress with deleveraging. (JC)**

**78.5p**

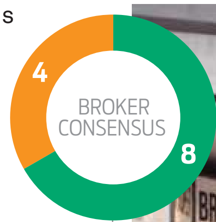
**Gain to date: 11.7%**

Original entry price:
Buy at 70.25p, 16 July 2015



## **SSP** (SSPG)

THE RAPID GROWTH in overseas travel is likely to boost the airport concessions business of Upper Crust and Caffe Ritazza brand owner **SSP (SSPG)**, giving us further confidence in the £1.4 billion cap's long-term growth potential.




Gatwick, Stansted and Heathrow airports all had a record August as Brits chose to escape the bad UK weather and holiday abroad. The improving UK economy is also thought to be encouraging consumers to splash out on trips overseas.

London Gatwick saw 4.53 million passengers travelling through its airport in August, a rise of 3.7% year-on-year. The airport has now had 30 months of consecutive growth.

More than 2.2 million people used Stansted in August, a rise of 9.7% year-on-year, making it the busiest August since 2008 and the fourth month in a row in which it has seen more than 2 million passengers.

Heathrow recorded its busiest ever month in August, with passenger numbers up 4% to around 7.3 million. Figures from Barclaycard


suggest travel spend grew by 7% that month.

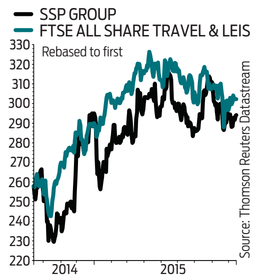
**SHARES SAYS: ▲▼**

**These trends are likely to benefit SSP, which has concessions in 125 airports around the world and is expanding its portfolio of brands with big names like Jamie Oliver and James Martin. (EP)**

**294.3p**

**Gain to date: 25%**

**Original entry price:**
**235.5p, 6 Nov 2014**



# MONEY MAKERS

*We look at the sector titans of the last decade and decide if they can continue to outperform*

DANIEL COATSWORTH

If you are looking to build a diversified investment portfolio, one of the most asked question is whether to buy the best performing stocks or take a contrarian approach and look for value opportunities among market laggards or less appreciated companies.

Markets trade off the perception of future earnings. A share price should move up if investors believe earnings are going to improve. Yet historical performance does still play a part in influencing the market's view of future earnings.

Over a decent length of time, a company's share price should theoretically follow the same trend as its profit and cash flow growth. It would take a severe setback to market conditions, such as a new competitor or poor management decisions, to derail a business that has such a long track record of success. While it is not impossible, as we've seen with **Tesco (TSCO)**, just look at how the shares of **Halma (HLMA)** and **Next (NXT)** have exceptional track record of making money for investors.

If a company has 10 years of decent share price performance, allowing for some blips in line with wider stock market corrections, then you would hope this trend can be sustained if the business is still focused on generating shareholder value, getting the best return on its invested capital and being innovative to stay abreast of changing customer needs.

Clearly not every star performer will be able to sustain its premium place, but it does make a good starting point for trying to build a diversified portfolio. We have therefore analysed a selection of popular sectors and compare the levels of total shareholder return, being capital appreciation (a rising share price) and dividend payments.

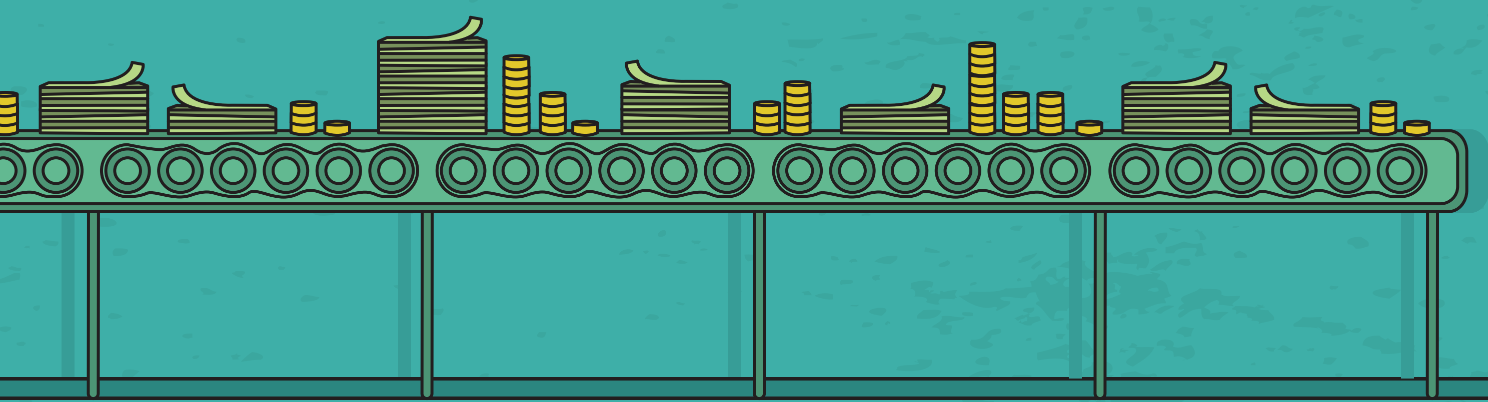
Using data from Sharescope's SharePad program, we have screened for stocks in the FTSE All-Share that have been trading on the UK stock market for at least 10 years. We have then taken a snapshot of well-known companies as the starting point for a discussion on each sector – asking whether strong performers are still worth buying today, or whether there is someone else to consider.

There are a number of great companies which have been trading on the stock market for a shorter period than our 10-year minimum screening criteria, so it is important to keep a broader view when finalising your stock selections.

For example, in media we would highlight **Entertainment One (ETO)**; and banking we like **OneSavings (OSB)**, both great businesses that didn't qualify for the 10-year search criteria.

We take the 10-year metric as a starting point to see if the star performers are names which you would expect to see, or whether some of the classic names haven't actually been great investments.

It is particularly interesting to see **WM Morrison Supermarkets (MRW)** as the best performing supermarket over a 10-year period. This may surprise people given it is really struggling as a business today.



# ELECTRONIC & ELECTRICAL EQUIPMENT

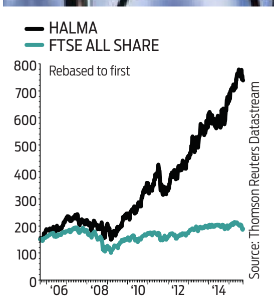
Hefty investment in research and development (R&D), a plethora of skills flooding out of our technical colleges and universities every year and savvy company managements are all vital components to the relative success of the UK's electronics industry, yet it is one of Britain's lesser-known success stories that we favour over the rest, **Halma (HLMA)**. The £2.8 billion company has earned a gold-plated reputation for never putting a foot wrong, and we back that trend to continue.

On the face of it you might expect many fundamental drivers to sit behind what is surely one of the UK's hidden gem industries, yet bizarrely, the types of equipment and kit manufactured by Britain's firms means there is actually not so very much to connect the sector dots. What does is exports. Amersham-based Halma manufactures and sells globally a wide range of health and safety equipment that are largely demanded by health, safety and environmental rules, including hazard detectors, sensors and assorted environmental protection kits. But only a fraction more than 19% of last year's £726.1 million of revenues stem from UK sales, the vast majority go abroad, to the US (31%), mainland Europe (23%) and the Asia Pacific (16%).

It's a similar story with Cambridge-based inkjet printer heads technology designer **Xaar (XAR)**, which flogs 42% of sales to Asia, based on half-year figures to 30 June. Yet the similarity between the pair ends there, the two companies are facing very different market demand drivers. Xaar admits that visibility is limited, particularly among its Chinese-based customers, where ceramics have been one of its great recent successes previously. But its graphic arts clients have been under the cosh for several years and that outlook seems unlikely change soon. That's very different to Halma, where global and local health and safety legislation is a big and consistent force for growth.

Product types are vital, **Renishaw (RSW)** has impressed over the past year or so thanks to forecast-beating demand for its metrology equipment, or precision measurement in plainer English, by far its biggest earner. Another massive exporter (just 5% of last year's near-£495 million of sales came from the UK and Ireland), the group has had far less luck with on its healthcare side, which continues to flatline.

But what can be said about the sector is that all of these names, and others, have learned hard lessons from the 2009-2010 recession. Most of Britain's electronic manufacturers have emerged with lower cost bases and greater exposure to fast growing emerging markets in Asia and Latin America, as well as established bases in the traditional industrial heartlands of Europe and North America, giving an altogether better business spread. (SFr)




## ELECTRONIC & ELECTRICAL – ELECTRONIC EQUIPMENT

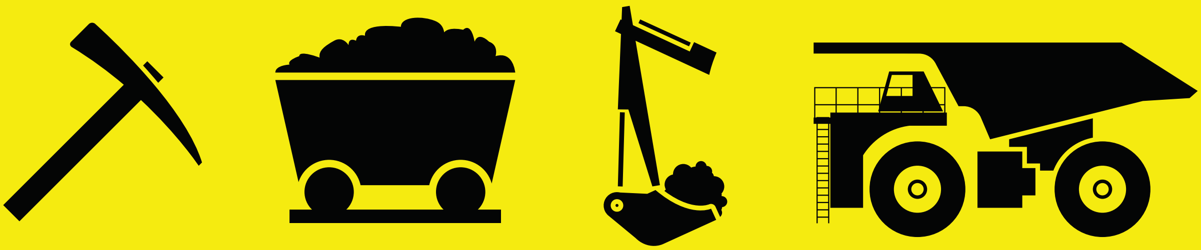
| | % change | | | | Original investment of 1000 shares 10 years ago (£) | Value of these shares today (£) | Dividends paid (p) 10 years | Current value of shares + dividends paid (£) | Total return 10 years* |
|---|---|---|---|---|---|---|---|---|---|
| | year to date | 3 years | 5 years | 10 years | | | | | |
| Halma | 13.9 | 80 | 155 | 400 | 1505 | 7460 | 903.9 | 8363.9 | 455.7 |
| Oxford Instruments | -47.9 | -51.9 | 86 | 187 | 2312.5 | 6505 | 1036 | 7541 | 226.1 |
| Renishaw | 7.2 | 29.6 | 110 | 156 | 8220 | 20900 | 3103 | 24003 | 192.0 |
| Xaar | 36 | 129 | 245 | 81.1 | 2907.5 | 5215 | 402.5 | 5617.5 | 93.2 |

Source: Sharescope/SharePad, Shares
Latest data taken 9 Sep 2015.
Companies had to be trading on the stock market for at least 10 years and be a member of the FTSE All-Share index

BEAUFORT
INVESTOR EVENING

6:00pm, Thursday 15th October 2015
Bristol Marriott Royal Hotel
College Green, Bristol

## Natural Resources: Unearthing potential in a troubled sector



Join us for our next Investor Evening in Bristol on Thursday, 15th October 2015. The event will focus on the natural resources sector, which has lost significant value over the past two years as global commodity prices have declined. The evening will comprise presentations and Q&A sessions with a selection of natural resources companies, followed by drinks, canapés and a chance to share investment ideas with other delegates.

The forum will give private investors the opportunity to hear directly from the senior management of these listed companies, providing an insight into the issues currently facing the industry. We aim to unearth some potentially exciting investment opportunities at the junior end of the market. After such a period of decline, is now the time to revisit this sector?

Companies confirmed to present on the night include:

**Ormonde Mining (ORM.L)**
**Scotgold Resources (SGZ.L)**
**Anglesey Mining (AYM.L)**

Register for your free tickets now by visiting...

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# TRAVEL & LEISURE

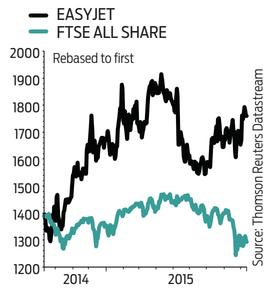
## AIRLINES

The distinctive orange livery of low-cost carrier **Easyjet (EZJ)** has been a familiar (if jarring) sight to air travellers since the airline's foundation in 1995. Floated on the London Stock Exchange in 2000, Easyjet has significantly outperformed its sector rival **International Consolidated Airlines Group (IAG)** over the course of the past 10 years. If you bought 1,000 shares in the Luton-based carrier in September 2005 at a cost of £2,907.50, the same stock would, at the time of writing, be worth £17,930.

Add to this the £1,901.30 earned from dividends in the period and the total value of one's 1,000-share stake amounts to £19,831.30. It is worth bearing in mind however that IAG's total return of 98.1% over the 10 years might have been significantly higher had the British Airways-owner paid a dividend.

While Easyjet remains a viable airline play on any of the metrics that matter (see *Shares* Cover Story 27 August), we feel that in the battle of the low-cost carriers, it may be that Irish airline **Ryanair (RYA)** has the edge going forward in terms of operational nous and strategic management.

On 9 September, the Dublin-based carrier raised its full-year guidance by a quarter to a range of €1,175 million to €1,225 million as the group's charm offensive and business customer strategy continues to feed through to the bottom line. Investec's Robert Murphy maintains a 'buy' recommendation with a €16 target price on the basis that the company 'trades on a FY16E P/E of 14.8x and EV/EBITDAR of 9.2x'.




Lower fuel costs over recent quarters have provided the airline sector with tailwinds that have seen some prodigious share price advances but sustaining this momentum may not be as easy. Ticket prices are expected to come under pressure due to capacity growth in the aviation industry, driven by airlines buying more planes while fuel prices are much lower than at any time in recent history.

Airlines need to offset lower ticket prices with higher sales volumes. One analyst has crunched the numbers on different scenarios, the base case being a 2% drop in average fares in 2016. On that assumption, stock valuations at present don't look excessive for many of the big airlines, which means many of the UK-quoted shares still look attractive from an investment perspective, albeit you must not forget that this is a very high-risk sector in which to place your money. (SFI)

### TRAVEL & LEISURE – AIRLINES

| | % change | | | | Original investment of 1000 shares 10 years ago (£) | Value of these shares today (£) | Dividends paid (p) 10 years | Current value of shares + dividends paid (£) | Total return 10 years* |
|---|---|---|---|---|---|---|---|---|---|
| | year to date | 3 years | 5 years | 10 years | | | | | |
| EasyJet | 6.8 | 220 | 367 | 518 | 2907.5 | 17930 | 1901.3 | 19831.3 | 582.1 |
| International Consolidated Airlines | 19.7 | 297 | 153 | 103 | 2875 | 5695 | 0 | 5695 | 98.1 |

Source: Sharescope/SharePad, Shares
Latest data taken 9 Sep 2015.
Companies had to be trading on the stock market for at least 10 years and be a member of the FTSE All-Share index

# PHARMA & BIOTECH

## PHARMACEUTICALS

The UK pharmaceutical industry is dominated numerically by speculative development companies, but revenue-generating businesses with strong fundamentals are emerging. Niche drug-maker **Shire (SHP)** is one such company and continues to look well placed.

The FTSE 100 member has grown to be the UK's third largest pharmaceutical by market cap just 29 years after opening its doors for the first time. The £28.7 billion cap has generated a 613.3% total return for those who bought the shares in September 2005 and are still holding and there could be more to come. Shire, best known for Attention Deficit Hyperactivity Disorder (ADHD) drugs, is working to generate $10 billion in annual sales in the next five years. Revenues are expected to top $6.2 billion this year, according to Panmure Gordon, rising to $7.4 billion in 2016. Shire is using the huge cash pile it has accumulated, which includes a £1 billion takeover break-up fee from US firm **AbbVie (ABBV:NYSE)**, to replace revenues lost to generic competition in recent years. The group has grown through acquisitions, buying 20 companies in almost as many years, and its largest deal to date is on the table. A $30 billion all share offer on a 36% premium for blood and immune system disorder specialist Baxalta has been rejected by the US company's board. Shire is reported to be preparing another bid.

The deal would expand its rare disease portfolio and double group revenues to $20 billion by 2020, Shire claims. It would also create a pipeline housing more than 30 candidates. Despite the speculative nature of the industry few sectors offer such stronger drivers to attract investment that pharmaceuticals. Global sales in the industry are expected to reach $1.3 trillion by 2020, according to PwC.

Rising longevity will see around 22% of the UK population aged 65 years of age or over in the next five years, according to ratings agency Moody's, and they want a more active retirement than their parents had. Then there is the rise of chronic illnesses, which need long-term care but there is no cure. One such condition is diabetes, which has increased by some 60% in the past decade to 3.3 million sufferers, while GPs write the equivalent of 130,000 prescriptions to treat the condition every day. Then there rising prosperity in the emerging markets where more people can now afford treatments to cure their ills. (MD)

# MEDIA

## BROADCASTING & ENTERTAINMENT

The top performer from our select group of stocks in the Broadcasting & Entertainment sub-sector is **ITV (ITV)**. Although we have warmed to the free-to-air broadcaster we think **Entertainment One (ETO)** (not included in our list of the decade's best performing stocks as it floated in 2007) is a better long-term prospect.

A 20% decline in the share price in the past three months due to currency headwinds has created a compelling opportunity for investors. Entertainment One has the rights to valuable content so can benefit from the shift towards video streaming, with the major platforms – the likes of Amazon Instant Video and **Netflix (NFLX:NDQ)** – willing to pay a premium for the right titles as they look to secure contracted viewers.

The Toronto-headquartered firm buys the distribution rights for films. It produces TV shows, selling broadcast rights to third parties but retaining merchandise and digital distribution rights. It undertakes brand licencing and has a small music rights operation.

One of its most lucrative properties is Peppa Pig which generated global revenues of $1 billion in calendar 2014.

Although on demand video is playing an increasing role in home entertainment, analysis by Liberum suggests reports of the death of live TV may have been exaggerated. It highlights data from the Broadcasters' Audience Research Board which found 88% of TV viewing in the UK as of last year was live rather than time shifted.

No wonder then that ITV has prospered in the last decade, supported by a shareholder friendly management team which put in place a five year 'Transformation Plan' in 2010. This placed the emphasis on a streamlined cost structure and increased cash flow. The company has also invested in its production capability to generate its own content.

Pay-TV giant Sky has delivered a significant total return over the past 10 years as it has broadened its offer to quad play – offering, TV, broadband, landline and mobile services. But a big move in 2014 to buy its sister companies in Italy and Germany suggests it may have hit saturation point in the UK and the emergence of **BT (BT.A)** as a competitor for sporting rights is another negative factor.

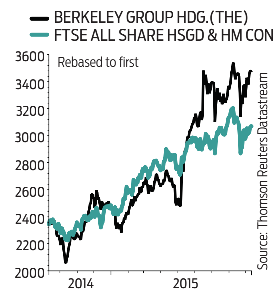
Other key themes impacting this space include the pressure being exerted on the BBC by a Conservative Government. Any pull-back by the Beeb could see other broadcasters pick up audience share. The possible emergence of retransmission fees – where pay TV providers such as **Sky (SKY)** would pay their free-to-air counterparts such as ITV to show their channels – is another consideration for investors in this space. (TS)

| PHARMA & BIOTECH – PHARMACEUTICALS | % change | | | | Original investment of 1000 shares 10 years ago (£) | Value of these shares today (£) | Dividends paid (p) 10 years | Current value of shares + dividends paid (£) | Total return 10 years* |
|---|---|---|---|---|---|---|---|---|---|
| | year to date | 3 years | 5 years | 10 years | | | | | |
| AstraZeneca | -6.5 | 46.5 | 28.5 | 61.5 | 26530 | 42555 | 13782 | 56337 | 112.4 |
| Dechra | 17.8 | 74.6 | 131 | 329 | 2275.21 | 9515 | 985.7 | 10500.7 | 361.5 |
| GlaxoSmithKline | -5.3 | -7 | 2.8 | -4 | 13650 | 13290 | 6340 | 19630 | 43.8 |
| Oxford Biomedica | 44.8 | 285 | -16.8 | -81.2 | 430 | 81.5 | 0 | 81.5 | -81.0 |
| Shire | 9.4 | 156 | 236 | 611 | 6980 | 49110 | 678.4 | 49788.4 | 613.3 |
| Vectura | 43.6 | 120 | 263 | 141 | 775 | 1818 | 0 | 1818 | 134.6 |
| **MEDIA – BROADCASTING & ENTERTAINMENT** | | | | | | | | | |
| ITV | 18 | 186 | 337 | 125 | 1120 | 2472 | 387.8 | 2859.8 | 155.3 |
| SKY | 15.7 | 34.9 | 44.6 | 80.3 | 5750 | 10270 | 2094.2 | 12364.2 | 115.0 |
| UTV Media | -1.3 | 30.6 | 41.8 | -60.9 | 4455 | 1730 | 462.4 | 2192.4 | -50.8 |
| **HOUSEHOLD GOODS – HOME CONSTRUCTION** | | | | | | | | | |
| Bellway | 32.6 | 171 | 353 | 199 | 8515 | 24960 | 2784.7 | 27744.7 | 225.8 |
| Berkeley | 40.7 | 131 | 311 | 298 | 8710 | 34550 | 4340 | 38890 | 346.5 |
| Bovis | 24.7 | 118 | 188 | 76.6 | 6170 | 10830 | 1740.9 | 12570.9 | 103.7 |
| MJ Gleeson | 20.7 | 254 | 305 | 35.2 | 3217.5 | 4275 | 574 | 4849 | 50.7 |
| Persimmon | 34.6 | 179 | 427 | 153 | 8330 | 20830 | 1392 | 22222 | 166.8 |
| Taylor Wimpey | 48.8 | 251 | 597 | -38.2 | 3247.5 | 1989 | 599.4 | 2588.4 | -20.3 |

Source: Sharescope/SharePad, Shares
Latest data taken 9 Sep 2015.
Companies had to be trading on the stock market for at least 10 years and be a member of the FTSE All-Share index

# HOUSEHOLD GOODS

## HOME CONSTRUCTION




Over the past decade, the standout performer in the housebuilding sector has been **Berkeley Group (BKG)**. Not only has share price appreciated by a mouthwatering 298% in ten years – meaning that 1,000 shares which would have cost £8,710 in 2005 were worth £34,550 at the time of writing – but investors would also have earned a tidy £4,340 in dividends.

Berkeley remains a paragon of virtue in the sector; it's fortress-like balance sheet, compelling shareholder returns and the preternatural nous of its executive chairman when it comes to sniffing out good land deals and more importantly an uncanny knack for calling market tops mean that this remains the benchmark stock in the housebuilding segment. Berkeley tends to operate very much towards the higher end of the market in London and south east England which is by far the most effervescent regional market. Full year results for the £4.72 billion cap in June suggested some rather bullish guidance for 2017 and 2018.

Its 10-year dividend total far outstrips the next biggest payer **Bellway (BWY)** which paid out £2,784.70 over the period. This is all the more impressive given that Berkeley paid no dividends whatsoever between September 2004 and April 2013.

Perhaps more than any of the other sectors covered (except banks), housebuilders experienced one hell of a rollercoaster ride when the financial crisis took hold in 2007/8.

Profits collapsed and several players found themselves in need of rescue rights issues to shore up their own stretched balance sheets. This situation was further exacerbated by deleveraging banks and consumers cutting back sharply on spending. Despite record low interest rates since February 2009 and the Bank of England's attempts to shore up the torpid economy with its asset purchase facility, better known as quantitative easing, the sector struggled.

Now greater capital discipline and significant barriers to entry are underpinning strong returns from the space and while the sector's valuation is retesting highs it is likely to push further as strong, cash backed returns are becoming relatively more attractive. The 2010 Conservative-Lib-Dem coalition introduced schemes like the Fund for Lending and Help to Buy to stimulate both lenders and consumers thereby kickstarting the mortgage market. With Help to Buy set to continue until 2020, the housing market remains ebullient and has already made ground since the May General Election insured five more years of Conservative government.

Colin Sheridan at Davy research points out that the Berkeley, which still sees itself as 'well placed in an attractive global city (being mainly in London), is now targeting £2 billion in pre-tax profits in the three years 2015/2016, 2016/2017 and 2017/2018 – well above previous consensus expectations.' (SFI)

# TRAVEL & LEISURE

## RESTAURANTS AND PUBS

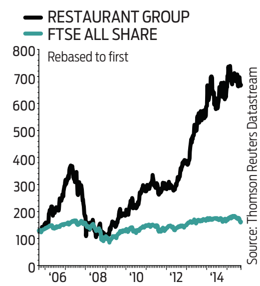
The improving UK economy has been a real boost for the restaurants and pubs sector this year and our top pick to play this theme is Frankie & Benny's owner **Restaurant Group (RTN)**, which is the highest performer in this sector over the past decade.

Restaurant Group has returned 421% over the past 10 years, or 492.5% if you include dividends. The key strength of the business is its strategic positioning in leisure parks where the barriers to entry are much higher than on the high street. The £1.4 billion cap is best known for Frankie & Benny's but the star performer over the last 12 months has been its Chiquito brand, which is benefitting from the resurgence in Tex-Mex dining.

The key driver for Restaurant Group this year is the strong cinema line-up. Half of the group's revenue is derived from restaurants near cinemas and it's expected to be a strong beneficiary of the latest films in the *James Bond*, *Hunger Games* and *Star Wars* series. The share price has fallen by 4.3% over the last six months, which we believe presents a good buying opportunity. At 674.5p it has a forward price to earnings ratio of 19.9. This does not seem unreasonable given the growth track record.

The biggest event overshadowing an otherwise rosy outlook for the restaurants and pubs sector is the new national living wage, which will be introduced in April. Premier Inn and Costa owner **Whitbread (WTB)** says the new wage will increase its costs substantially and it's therefore looking to cut operating costs and increase prices. Whitbread has a total return of 418.7% over the last decade but it has recently fallen out of favour among investors.

Its chief executive Andy Harrison is leaving and its second quarter results were below expectations due to tough comparatives from last year. We still like the business because of its brand strength and impressive expansion plans and think now is a good time to buy the stock, which has fallen 11.7% over the last six months to £46.61.




Pub chain **JD Wetherspoon (JDW)** has a 10-year total return of 181.3% but we're cautious on the stock. It recently reported a 2% drop in pre-tax profit for FY2015 and it has had a soft start to the first quarter of 2016, with like-for-like growth of 1.4%. Although sales have grown by around £565 million in the last five years EBITA (earnings before interest, tax and amortisation) has nudged up by only £16 million due to the group's focus on cheap, volume-driven sales. (EP)

| TRAVEL & LEISURE – RESTAURANTS AND BARS | % change | | | | Original investment of 1000 shares 10 years ago (£) | Value of these shares today (£) | Dividends paid (p) 10 years | Current value of shares + dividends paid (£) | Total return 10 years* |
|---|---|---|---|---|---|---|---|---|---|
| | year to date | 3 years | 5 years | 10 years | | | | | |
| Mitchells & Butlers | -5.9 | 27.7 | 14.8 | -4.7 | 3730 | 3543 | 1386.3 | 4929.3 | 32.2 |
| Restaurant Group | 1.1 | 91.5 | 149 | 421 | 1280 | 6605 | 978.6 | 7583.6 | 492.5 |
| Wetherspoon | -11.4 | 54.9 | 62.4 | 148 | 2910 | 7160 | 1025.2 | 8185.2 | 181.3 |
| Whitbread | -0.8 | 105 | 205 | 375 | 9849.42 | 46360 | 4730.6 | 51090.6 | 418.7 |
| **SOFTWARE & COMPUTER SERVICES – COMPUTER SERVICES** | | | | | | | | | |
| Fidessa | -23.8 | 26.3 | 30.8 | 195 | 6290 | 18560 | 5556 | 24116 | 283.4 |
| Innovation | 32.9 | 94.5 | 3030 | 48.8 | 268.02 | 397.5 | 4.2 | 401.7 | 49.9 |
| Micro Focus | 14.4 | 128 | 234 | 998 | 1223.68 | 12210 | 1490.5 | 13700.5 | 1019.6 |
| RM | 9.7 | 84.7 | 12.7 | -10.7 | 1925.71 | 1726.25 | 719.2 | 2445.45 | 27.0 |
| Sage | 9.6 | 59.8 | 91.8 | 107 | 2472.08 | 5045 | 1036.3 | 6081.3 | 146.0 |
| SDL | -9.8 | -42.7 | -31.6 | 128 | 1645 | 3710 | 199 | 3909 | 137.6 |
| **BANKS** | | | | | | | | | |
| Barclays | 6.3 | 35.6 | -9.4 | -51 | 5283.83 | 2585 | 1266.9 | 3851.9 | -27.1 |
| HSBC | -17.6 | -10.5 | -23.8 | -34.9 | 7774.27 | 5042 | 2975.5 | 8017.5 | 3.1 |
| Lloyds Banking | -0.4 | 105 | 1.6 | -68.3 | 2395.97 | 758.8 | 550.2 | 1309 | -45.4 |
| Standard Chartered | -25 | -49.4 | -60.9 | -29.3 | 10203.8 | 7212 | 4243.3 | 11455.3 | 12.3 |

Source: Sharescope/SharePad, Shares
Latest data taken 9 Sep 2015.
Companies had to be trading on the stock market for at least 10 years and be a member of the FTSE All-Share index

# SOFTWARE & COMPUTER SERVICES

It's the UK's slew of skilled entrepreneurs embracing new technologies that arguably drive Britain's software success, yet it is a more mature, dare we say, old fashioned programmer that we favour, £2.65 billion **Micro Focus (MCRO)**. Not a company to win any technology hotspot prizes yet its core COBOL (Common Business Oriented Language) refresh skills remain in demand and will likely do so for years to come since its one of the core programming languages on which technologies are built.

Adding to the appeal is its newly found ambition. Operating efficiencies had been its big focus for years, and understandably so given its growth limitations. Yet that's now changed with the ambitious $2.35 billion (£1.5 billion) merger with US peer Attachmate, adding expertise in several other programming tools (Linux among them) and SUSE, one of Attachmate's operating units. When **IBM (IBM:NYSE)** surprised the market by launching a pair of Linux-only mainframe computers in August, it gives a sense that Attachmate is going to be a very promising growth driver for Micro Focus down the line.

There remain plenty of encouraging signals for the wider software space going forward as the slew of new technologies that have debuted over the past few years (cloud, big data, analytics, 4G, data centre consolidation, social enterprise and collaboration software) click into place. But where opportunities exist so do challenges, and **Sage (SGE)** knows this as well as anyone.

Its big problem, in many ways, has been its previous success in developing a 6,000-strong customer base of smaller and medium-sized enterprises (SMEs) for its enterprise resource planning (ERP) tools. But on typical licences in a world increasingly embracing the new world of cloud infrastructure, the UK's biggest listed software company (at £5.5 billion, it's the FTSE 100's sole sector constituent) must find a way to provide a cloud solution without cannibalising its traditional revenue base. Easier said than done.

Elsewhere, **Fidessa's (FDSA)** excellent equity trading platform is seemingly hitting a long-run growth ceiling despite branching out in to the derivatives space. As Panmure's George O'Connor suggests, the good ol' days look unlikely to return. Perhaps it will follow so many other UK software firms and be taken over. There's been many deals struck across the sector, too numerous to name, either from US trade buyers or private equity firms, a fate seemingly wrapped up for insurance claims software supplier **Innovation Group (TIG)**. It has already accepted a seemingly ungenerous 40p per share offer from Carlyle, and all that's left to do is dot the I's and cross the T's. (SFr)

# BANKS


Eight years after the onset of the financial crisis the UK's big five listed banks still do not offer sound investment cases. So *Shares* is turning to **OneSavings Bank (OSB)** as a lender that will generate returns for shareholders in the coming years as its established peers struggle under the weight of paying for their past scandals and are burdened with increased regulation.

Legacy issues continue to bite into the larger banks' profits and there is little sign of the level of compensation claims tailing off. Around £20 billion has been paid to compensate those it miss-sold payment protection insurance (PPI) to with the largest banks shouldering the majority of the bill. They have also been hit with money laundering fines, sanction breaking, rigging LIBOR and product miss-selling.

Kent-based OneSavings is free of such issues and as such its pre-tax profits are forecast to grow 63.8% to £104.4 million in 2015, according to Investec. The FTSE 250 bank is expected to pay 8.5p a share divided for this year, or 2.2% while trading at 371.9p. This is a 117.9% rise on the 3.9p paid per share in 2014. The buy-to-let and small business lending specialist, which is mainly funded by consumer deposits, has a 31% return on equity, meaning that it makes 31p on every £1 its shareholders invest in the bank, while costs remain among the lowest in the sector at 26% of earnings.

We choose OneSavings over **Standard Chartered (STAN)**, which provided the largest return over the past decade. Standard Chartered's Asia, Africa and Middle East focus saw it generate a decade of growth, despite the financial crisis. But a slowdown in the emerging markets and huge losses in Korea led to its chief executive being replaced and there is no sign of a recovery.

The market has seen several new entrants in the past few years or those deciding to accelerate their growth plans to meet demand after the larger players pulled out of certain markets. These lenders, which include **Shawbrook (SHAW)** and **Aldermore (ALD)**, may not generate the profits that **HSBA (HSBA)** and **Barclays (BARC)** will make in the coming years, but their growth is expected to be high. One issue that could undermine that growth is the introduction of an 8% tax on bank profits above £25 million from January, which comes on top of corporation tax. (MD)

# LIFE INSURANCE

The top performing life insurer on a total return basis over the past 10 years is wealth manager **St James's Place (STJ)** and we expect it to generate further gains in the coming years.

The sector has been shaken up by the government's pension revolution, which means that since April savers no longer have to buy an annuity with their pension pots and can invest their cash how they wish when funding their retirement. This has hit individual annuity sales for UK savers, with providers switching their attention to de-risking bulk pension schemes for corporates.

In another move, the government has reduced the tax relief for those in the higher tax bracket to £10,000 a year from £40,000, which is expected to reduce the amount flowing into pensions, with savers putting their cash elsewhere. St James's Place provides alternative saving products among its offering, such as Individual Savings Accounts (ISA), which could capture these additional funds. This should continue to help the company dodge the low interest rate environment which has persisted in the UK during the past six years and hit many insurers' investment returns.

St James's Place benefits from attracting customers that are predominately wealthy. It has a solid record of growth where funds under management dipped only once during the financial crisis, with 2008's results the only blot on its growth record. The secret behind this achievement is investing client cash through an international network of fund managers. This includes Neil Woodford, who manages the UK equity fund **St James's Place UK High Income (GB0007667883)**.

Another life insurer worth keeping an eye on is **Prudential (PRU)**. Focusing its operations on Asia looks set to see it avoid the worst of any regulatory changes hitting the industry in the UK.

Asia is a market characterised by low insurance penetration and analysts at Berenberg point to the recent slowdown in China not affecting Prudential too much as the country provides just1% of its profits. Sales in the country grew 44% in the six months to 30 June and Prudential says it has seen no impact on its interests in the country during the recent turmoil. The market has deteriorated further since that statement and *Shares* is taking a wait and see approach to gauge any knock-on effect in the rest of the region. (MD)

**LIFE INSURANCE**

| | % change | | | | Original investment of 1000 shares 10 years ago (£) | Value of these shares today (£) | Dividends paid (p) 10 years | Current value of shares + dividends paid (£) | Total return 10 years* |
|---|---|---|---|---|---|---|---|---|---|
| | year to date | 3 years | 5 years | 10 years | | | | | |
| Aviva | -1.6 | 37.1 | 20.2 | -23.2 | 6210 | 4713 | 2410.4 | 7123.4 | 14.7 |
| Chesnara | 1.9 | 79 | 61.8 | 118 | 1637.5 | 3562.5 | 1590.3 | 5152.8 | 214.7 |
| Legal & General | 4.6 | 92.2 | 168 | 127 | 1132.5 | 2532 | 658.5 | 3190.5 | 181.7 |
| Old Mutual | 2.5 | 13.2 | 42.6 | 38.8 | 1402.5 | 1889 | 804.1 | 2693.1 | 92.0 |
| Prudential | -4.4 | 74.4 | 140 | 175 | 5190 | 13855 | 2375.5 | 16230.5 | 212.7 |
| St James's Place | 10.1 | 140 | 241 | 259 | 2480 | 8750 | 870.9 | 9620.9 | 287.9 |

**FOOD DRUG RETAILERS – FOOD RETAILERS & WHOLESALERS**

| | % change | | | | Original investment of 1000 shares 10 years ago (£) | Value of these shares today (£) | Dividends paid (p) 10 years | Current value of shares + dividends paid (£) | Total return 10 years* |
|---|---|---|---|---|---|---|---|---|---|
| | year to date | 3 years | 5 years | 10 years | | | | | |
| Morrison | -5.6 | -40.8 | -40.9 | -7 | 1860 | 1700 | 852.7 | 2552.7 | 37.2 |
| Sainsburys | 0.4 | -26.3 | -35.6 | -14.4 | 2852.5 | 2385 | 1355.5 | 3740.5 | 31.1 |
| Tesco | 2 | -44.7 | -54.1 | -41.7 | 3292.5 | 1890 | 1140.8 | 3030.8 | -7.9 |

**GENERAL RETAILERS – APPAREL RETAILERS**

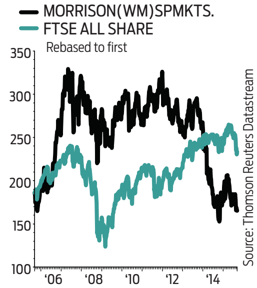
| | % change | | | | Original investment of 1000 shares 10 years ago (£) | Value of these shares today (£) | Dividends paid (p) 10 years | Current value of shares + dividends paid (£) | Total return 10 years* |
|---|---|---|---|---|---|---|---|---|---|
| | year to date | 3 years | 5 years | 10 years | | | | | |
| N Brown | -19.9 | 6.7 | 27.3 | 80.1 | 1652.5 | 2962 | 1104.2 | 4066.2 | 146.1 |
| Moss Bros | 2.8 | 102 | 307 | -11.2 | 1030 | 917.5 | 169.5 | 1087 | 5.5 |
| Next | 12.4 | 112 | 272 | 420 | 14600 | 75450 | 10310 | 85760 | 487.4 |

Source: Sharescope/SharePad, Shares
Latest data taken 9 Sep 2015.
Companies had to be trading on the stock market for at least 10 years and be a member of the FTSE All-Share index

# FOOD & DRUG RETAILERS

## FOOD RETAILERS & WHOLESALERS

Readers will surely be surprised to learn, in light of an interim sales and profits slump (10 Sep), that the best performer in the Food & Drug Retailers sector on a 10-year total return basis is **WM Morrison Supermarkets (MRW)**. If you had bought 1,000 shares a decade ago at £1,860 cost, the capital value would now be lower at £1,700. However, owning the Bradford-based grocer would have netted you £853 worth of dividends on top for a total return of 37.2%, better than that generated by 'Big Four' supermarket rivals **Tesco (TSCO)** and **Sainsbury's (SBRY)**.




For much of the decade, Morrisons' value-for-money offering resonated with shoppers, while income investors gravitated towards its strong cash flows and progressive dividend. The share price peaked at various points under the leadership of Marc Bolland, who decamped to **Marks & Spencer (MKS)** in 2010 and successor Dalton Philips. The latter carried the can for Morrisons' laggard entry into online - its internet operation is run by **Ocado (OCDO)** – and convenience. The grocer was too slow to react to the structural shifts in UK grocery and Philips' attempts to move upmarket baffled many loyal shoppers.

Of the three major listed grocers Morrisons, with its northern bias, has been hardest hit by the rise of discounters Aldi and Lidl and is having to contend with food price deflation as the price war escalates. According to the latest grocery share figures (25 Aug) from Kantar Worldpanel, sluggish growth continues in the British grocery market, with sales edging up just 0.9% over the 12 weeks ending 16 August, a period in which Aldi's growth accelerated to 18%, Lidl's share hit a new high of 4.1% and both Tesco and Morrisons saw sales decline.

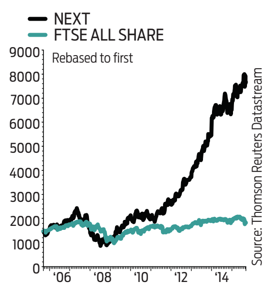
Morrisons' new CEO David Potts concedes the turnaround will take time and no little investment, while the interims revealed another like-for-like decline, sales down 2.7% (ex-fuel and VAT) amid industry-wide price-cutting. Yet Potts has outlined his strategic priorities to rejuventate the core supermarkets business and taken some hard decisions already, not only taking a scythe to the cost base, but also announcing the sale (9 Sep) of the M local convenience business to retail entrepreneur Mike Greene and Greybull Capital and the shuttering of another 11 supermarkets. Morrisons is by no means out of the woods, though weakness might entice recovery play enthusiasts and there are market whispers of a bid. (JC)

# GENERAL RETAILERS

## APPAREL RETAILERS

Hats off to Simon Wolfson, CEO of high street clothing and homewares colossus **Next (NXT)**. Under his stewardship, the FTSE 100 retailer has generated a ten-year total return of 487.4%, turning an original investment of £14,600 a decade ago into shares worth £75,450 today. Over the decade, the prodigiously cash-generative retailer has also paid out £10,310 in dividends to take the total return to a staggering £85,760. This sum does not include monies returned via earnings accretive share buybacks – Wolfson wants to run an efficient balance sheet but won't buy back stock irrespective of price or valuation.

Next's success reflects the pursuit of a consistent strategy of investing in developing the Next brand, opening profitable new retail space and investing in online growth, principally the star-performing NEXT Directory. The fashion retail titan has consistently taken market share for years and its pre-tax profit surpassed that of arch-rival **Marks & Spencer (MKS)** for the first time in fiscal 2014. Like other apparel retailers, Next has exposure to weather and fashion risk, yet by avoiding heavy discounts, Next has avoided the margin-eroding promotions that have often hurt its rivals. Wolfson's focus on margin has also meant cash conversion has remained strong, even throughout the downturn.




We remain positive on Next, akin to a 'perfect share' in a sector where the consumer backdrop is supportive; there's falling inflation, real wage growth, continued low interest rates and a largely positive housing market backdrop, although rising interest rates and the impact of the Living Wage Premium are likely to weigh on sector sentiment. Given Next's soaring share price however, investors might recycle profits into another high-quality growth stock with a winning formula, namely homewares rival **Dunelm (DNLM)**.

The value-for-money bedding, fabrics and furniture retailer also has an enviable record of bumper cash returns, while like-for-like sales growth signals firm market share gains as the company continues to consolidate UK homewares market leadership. Full-year results (10 Sep) revealed robust 5.8% like-for-like sales growth, as well as a 4.7% profit before tax advance to £121.4 million. Dunelm sees scope to expand its superstore chain from 148 stores to 200 in the UK and is investing in people and infrastructure to support its next leg of growth, while the coming year will also see respected retailer John Browett take the CEO reins, a likely catalyst for progress on the digital front. Jefferies has a 'buy' rating and £10.25 price target for Dunelm, implying more than 15% upside from the current 890.5p share price. (JC)

# Sphere's world stops turning

*Avoid value trap as partner declines option to buy Proxima 4's rights*

MARK DUNNE

Analysts have placed blood gas analysing device-maker **Sphere Medical's (SPHR:AIM)** forecasts under review after its collaboration partner decided not to buy the rights to its Proxima 4 system.

This creates a period of uncertainty for the loss-making company and suggests pressure will remain on a share price which is already down 32.8% year to date.

Proxima analyses the blood gases that determine a patient's health at the bedside, replacing the need to send samples to a lab. As well as cutting costs it reduces infection and anaemia risk with the analyser attached to a patient's arm for six days and returning each sample to the body.

On 17 August, Sphere reported that in-vitro diagnostic-maker Ortho Clinical Diagnostics decided against exercising an option to buy the exclusive global rights to the sale of Proxima.

Before the news FinnCap expected a pre-tax loss of £6.9 million for 2015, up from £5.8 million in 2014. The market awaits the broker's new forecasts.

Sphere formed an agreement with Ortho in July 2013 where the US firm invested £3.3 million in the business with the option to sell Proxima 4. This is the next generation of the system, which incorporates glucose and sodium analysis within the sensor panel and adds connectivity to hospital information systems.

Ortho specialises in distributing laboratory-based tests and systems. FinnCap believes its decision was the result of it not having a big enough presence in the point-of-care testing market, which is needed to distribute the Proxima 4 system.

This leaves Sphere free to negotiate a deal with another party, especially a lab-bound diagnostic company in the blood analysis space which does not have a point-of-care device.

If the £20.1 million cap markets the device itself then uptake is likely to be slower than it would be through a larger company with more developed distribution channels. On this basis forming an agreement with another party would be the preferred option for many shareholders.

Sphere keeps any of the intellectual property that was developed during the coloration period and is working on submitting Proxima 4 for its CE mark, which clears it for sale in most of Europe.

**SHARES SAYS:**

**Sphere has a good device and superficially 14.2p looks a good entry price, but beware a value trap as the shares are likely to fall further when FinnCap's new forecasts are published.**

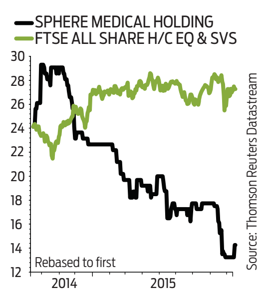
## SWOT ANALYSIS

**STRENGTHS**
- Point-of-care device
- Retains intellectual property

**WEAKNESSES**
- Loss-making
- No distribution agreement
- Does not have own distribution infrastructure

**OPPORTUNITIES**
- Free to form new agreement
- Securing European sales clearance

**THREATS**
- New market entrants
- No distribution agreement
- Regulation

# Make space for Frontier

*Video games developer poised for further growth after doubling revenues*

EMILY PERRYMAN

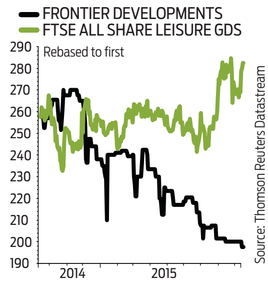
THE LAUNCH OF **Frontier Developments' (FDEV:AIM)** second major self-published game is expected to further drive revenues at the £66 million cap, whose high growth potential has yet to be recognised by the market.

The video games developer's transition from earning 81% of its revenue from third-party publishers to 84% from its own self-published titles, together with strong demand for its now-established *Elite*: Dangerous space game, drove higher-than-expected revenue growth of 139% to £22.8 million in the year to 31 May.

The company is adding a paid-for expansion pack, *Elite*: Horizons, and will soon release *Elite*: Dangerous for Xbox One, giving improved visibility into the game's longer-term potential.

*Planet Coasters* will be launched in the fourth quarter of 2016 and if it achieves the same success as *Elite*: Dangerous, for which 825,000 paid units have been sold, there is the possibility of significant growth.

'Combined, these developments de-risk the investment, and at an 8.2x trailing enterprise value to EBITDA multiple, we consider this to be an undemanding multiple for this high-growth company,' says FinnCap analyst Harold Evans.


**SHARES SAYS:** ▲▼

**Frontier's shares have fallen by 12.5% to 199.5p over the past six months but we believe this will start to reverse as the market picks up on its potential.**

## SMALL CAP BEST & WORST PERFORMERS*

### TOP FIVE

**1 WEEK ▲**

| COMPANY | EPIC | CHANGE (%) |
|---|---|---|
| Mosman Oil & Gas | MSMN | 100.0 |
| Ferrum Crescent | FCR | 80.0 |
| Kodal Minerals | KOD | 62.5 |
| W Resources | WRES | 53.5 |
| Cambria Africa | CMB | 39.4 |

**1 MONTH ▲**

| COMPANY | EPIC | CHANGE (%) |
|---|---|---|
| African Potash | AFPO | 198.0 |
| W Resources | WRES | 154.0 |
| Mosman Oil & Gas | MSMN | 126.0 |
| Galileo Resources | GLR | 83.0 |
| Great Western Mining | GWMO | 81.7 |

**3 MONTHS ▲**

| COMPANY | EPIC | CHANGE (%) |
|---|---|---|
| African Potash | AFPO | 647.0 |
| Styles & Wood | STY | 299.0 |
| Tern | TERN | 177.0 |
| Imaginatik | IMTK | 170.0 |
| Arria NLG | NLG | 150.0 |

### BOTTOM FIVE

**1 WEEK ▼**

| COMPANY | EPIC | CHANGE (%) |
|---|---|---|
| Herencia Resources | HER | -29.6 |
| Haike Chemical | HAIK | -30.8 |
| Landore Resources | LND | -32.7 |
| Redhall | RHL | -41.7 |
| Monitise | MONI | -52.3 |

**1 MONTH ▼**

| COMPANY | EPIC | CHANGE (%) |
|---|---|---|
| HSS Hire | HSS | -55.1 |
| Monitise | MONI | -55.9 |
| React | REAT | -56.8 |
| Infrastrata | INFA | -59.3 |
| Jubilant Energy | JUB | -85.6 |

**3 MONTHS ▼**

| COMPANY | EPIC | CHANGE (%) |
|---|---|---|
| PeerTV | PTV | -77.9 |
| Monitise | MONI | -80.6 |
| Auhua Clean Energy | ACE | -82.9 |
| Lonmin | LMI | -83.9 |
| Jubilant Energy | JUB | -89.2 |

*Max market cap £200 million
Data to 14 Sep 2015 1pm. Source: ShareScope

## Stagnation worry

AT 8.41P REMAIN wary of Swedish digital buying platform supplier **EU Supply (EUSP:AIM)** despite apparent headline progress. While recent interim losses at the £6 million cap were slashed by 40% to £900,000 most of that came from favourable forex movements cutting operating costs. (SFr)

## Have a look at Havelock

WEAKNESS AT interior fitout and refurbishment specialist **Havelock Europa (HVE:AIM)**, marked down to 11.5p following a severe profit warning (1 Sep), might interest risk tolerant micro cap fans. Having sold educational display boards arm Teacherboards to pay down debt, the £4.4 million cap can now focus on restructuring its core business and diversifying its customer base under new CEO David Ritchie. (JC)

## Cheers for Conviviality

BARGAIN BOOZE-TO-WINE Rack owner **Conviviality Retail (CVR:AIM)**, whose attractions we highlighted in our recent *Griller* interview, has been restored to trading after confirming (8 Sep) the hotly-anticipated £200 million acquisition of Matthew Clark. (JC)

# Cash in Harvest Minerals' sights

*Aspiring potassium and potash producer has interesting development plans*


Harvest plans to capitalise on 2017 closure of Vale's Taquari-Vassouras mine (pictured)

DANIEL COATSWORTH

The potential for near-term revenue generation from a potassium project and longer-term value uplift through a unique position in the Brazilian potash industry makes **Harvest Minerals (HMI:AIM)** very interesting at 0.95p. A major fundraise to secure $15 million over the coming weeks may cause short-term volatility in the share price, given this figure is greater than its current £4.2 million ($6.5 million) market value, but the stock looks very attractive assuming it can secure this money.

Harvest made an important discovery four days before its shares started trading on the AIM market at 0.9p (7 Sep). Drilling at its Arapua project in Brazil identified large areas of 'highly mineralised potassium rich rocks'. Executive chairman Brian McMaster believes this deposit could be in production by mid 2016, costing a mere $2 million to build. 'We originally thought it was a phosphate project, but now it is potassium which is better. We can do a quick drill programme, confirm a JORC resource and build a small crushing and screening plant,' he adds.

Arapua is likely to be an important source of early cash flow for Harvest, helping to fund work on two potash prospects, 13 kilometres and 40 kilometres respectively from the Taquari-Vassouras potash mine run by commodities giant **Vale (VALE:NYSE)** which is scheduled to be depleted in 2017.

Harvest believes its deposits could either become new sources of material to help Vale extend the life of its Taquari-Vassouras processing operations, or potentially the two companies could form a joint venture. The other option is for Harvest to build its own plant which may be roughly the same cost as the rail link required to link up to Vale's facilities.

Brazil is a major consumer of potash which is used to as a fertiliser to enhance crop yields. Ninety per cent of its material is imported and Taquari-Vassouras is the only operating mine in the country, so having a new domestic source of potash would be highly desirable.

McMaster says exploration work on Harvest's prospects imply similar characteristics to Vale's project, albeit mineralisation is at a greater depth. 'There is still lots of work to do, but we are on to something,' he insists.

Deep potash projects are incredibly expensive to turn into operating mines. While many large projects opt to sink shafts, McMaster says the costs do not have to be 'front loaded' if a solution mining technique is adopted which spreads the costs over many years. This involves drilling holes, filling them with fluid and pumping the potash-rich solution out. 'You'd probably end up spending the same as sinking shafts over time due to the continuous amount of drilling,' he comments.

**SHARES SAYS:** ▲▼

**On paper, this looks very exciting and we expect strong investor interest once the market becomes aware of the story.**

## SWOT ANALYSIS

### STRENGTHS
- Potential near-term revenue generation
- Opportunity to fill market gap
- Good investor interest in potash

### WEAKNESSES
- Big fundraise could weigh on share price
- No guarantee it can use Vale equipment
- Potash assets still need lots of exploration/ development work

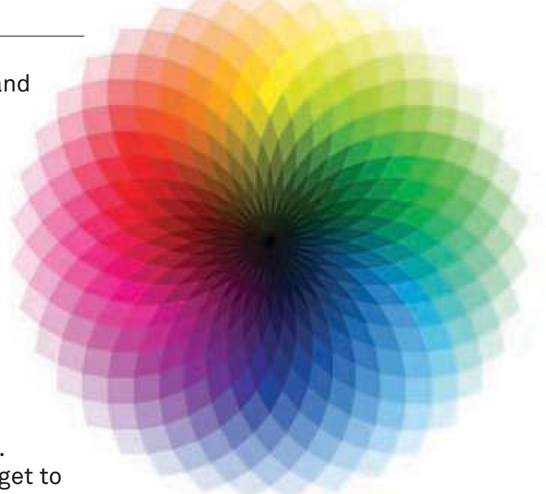
### OPPORTUNITIES
- Strike partnership with Vale
- Build own processing facilities
- Fast-track potassium asset

### THREATS
- Russian potash miner flood market with supply
- Fails to raise adequate funds
- Encounters geological complexities

# Fundamentals Attraqt'ion

*Focus on profits and cash set digital commerce specialist apart*

STEVEN FRAZER



RETAILERS ARE INCREASINGLY looking at multi-channel opportunities and international expansion to win customers and retain loyalty, and specialist platform start-up **Attraqt (ATQT:AIM)** looks well-placed to benefit.

The company only joined AIM last year (19 August), raising £1.25 million from investors at 50p for a £10.3 million launch market valuation. The shares are currently trading at 17% premium to the float price at 58.5p

While the digital commerce space has been littered with flops during the past 18-months or so, including **Mporium (MPM:AIM)**, the old MoPowered business, Attraqt is rapidly building a customer base, signing 24 new deals in the first six months of this year to 30 June, both in the UK and overseas. This has taken the total to more than 100.

Around 20% of those customers are pure online businesses, the bulk being bricks and clicks organisations looking to e-commerce to bolster their traditional store sales. This means Attraqt can leverage its *Freestyle Merchandising* platform from the ground up, becoming a trusted digital partner to many otherwise traditional businesses.

But what makes Attraqt arguably stand out from other e-commerce hopefuls is that management demand cash generation from the business and are not simply chasing top line growth. Chief executive officer (CEO) Andre Brown is 'very determined on cash positive and break-even,' explains Panmure Gordon technology analyst George O'Connor after meeting management.

This cuts the risk of future fund raisings simply to keep the business going despite having just £190,000 net cash on the balance sheet. 'We believe the group is on target to reach EBITDA (earnings before interest, tax, depreciation and amortisation) and cash break-even on a recurring monthly basis during the second half as planned with no further requirements for cash,' spell out analysts at house broker N+1 Singer.

**SHARES SAYS: ▲▼**

**There seems no rush to dive in right now but ongoing signs of that vital break into the black could spark a substantial share price re-rating down the line.**


# Focus sharpens at Alumasc

*Construction products play looks undervalued after earnings upgrades*

SEÁN FLYNN

A TIGHTENING MARKET focus, rewarded by a healthy improvement in its full-year results on 3 September, is seeing analysts upgrade their 2016 forecasts for specialist construction material producer **Alumasc (ALU)**. At 173.1p, shares in the Kettering-based firm are already up 41.3% year to date but look good value based on these new earnings estimates.

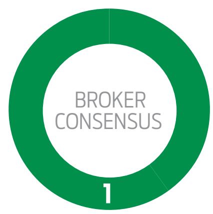
The £62.2 million cap has reported a 10% improvement in revenue to £98 million, a 16% rise in underlying operating profits to £9.0 million and a 16% increase in underlying profit before tax to £8.4 million. Earnings per share meanwhile have climbed 19% to 18.4p and the dividend has been upped by 20%.

The group focus on building products has been sharpened by the sale of APC and Pendock and investment in new facilities is being prioritised; as evidenced by £10 million spend in 2017 to consolidate its water management business in Kettering.

Debt is also moving in the right direction; it had net cash of around £1 million at the end of the year compared to £7.7 million worth of net debt a year earlier. David Buxton at FinnCap reckons that even after a year of outperformance, the shares remain significantly undervalued on a single-digit P/E and 4% yield. They raise their target price from 190p to 210p.

**SHARES SAYS: ▲▼**

**After a transitionary year, Alumasc showed healthy improvement in its full year results and FinnCap's target looks attainable.**



# ETFs getting even

*We explore the diversification benefits of equal weight indices*

EMILY PERRYMAN

Equity exchange-traded funds (ETFs) are often used as a way of achieving instant diversification as they enable you to buy a large basket of stocks as opposed to shares in a single company. In reality these ETFs aren't as diversified as you might think because they weight stocks according to their market capitalisation. This has led to the emergence of a new form of smart beta ETF – the equal weighted ETF.

## LARGE CAP BIAS

The FTSE 100 is a classic example of how weighting an index by market cap can skew your allocation to the underlying holdings. At the end of August HSBC accounted for 6.33% of the FTSE 100 and the biggest five stocks accounted for 22.71%. If you buy a traditional market cap weighted index ETF you'll be investing in line with these figures.

Market cap weighted indices are biased towards large cap stocks which can expose you to more risk. If you had a FTSE 100 ETF in 2010 you'd have been heavily exposed to the impact of the oil spill, which wiped billions off the value of **BP (BP.)**.

## GETTING EQUAL

Last month Deutsche Asset & Wealth Management launched the first ETF to provide equal weight exposure to the FTSE 100, the **db X-trackers FTSE 100 Equal Weight UCITS ETF (XFEW)**. This product gives each company in the index a fixed weight of 1% at the semi-annual rebalancing, so the biggest five stocks account for just 5%.

'By allocating an equal measure to each stock you get maximum diversification and further reduce idiosyncratic risk,' says John Adu, Deutsche AWM's head of ETF distribution for UK & Ireland.

According to figures from Deutsche AWM, an equal weight version of the FTSE 100 would have outperformed the capitalisation-weighted version by 2.6% a year between December 2004 and May 2015.

Paul Milburn, investment analyst at independent financial adviser Lowes Financial Management, says the fact the ETF rebalances semi-annually back to an equal weighting means investors can take profits from the winners while topping up their investment in stocks which have underperformed. 'This means that those stocks which have potentially re-rated and seen

**db x-trackers FTSE 100 Equal Weight UCITS ETF – sector weighting**

| | |
|---|---|
| Financials | 22. 99% |
| Consumer services | 21.99% |
| Industrials | 15.7% |
| Consumer goods | 13.6% |
| Basic materials | 7.65% |
| Healthcare | 5.36% |
| Utilities | 4.93% |
| Telecommunications | 3.14% |
| Oil & gas | 2.75% |
| Technology | 1.88% |

Source: Deutsche AWM

their share price rally strongly are not given an increased allocation simply because of their increased market cap. This potentially avoids increasing your investment to overvalued stocks,' he explains.

## SECTOR ALLOCATION

The equal weight strategy also changes your exposure to market sectors. For example, its allocation to the industrials sector is 15.7% versus 7% for the FTSE 100.

By contrast, the ETF's weighting to oil and gas is 2.75% compared with 13% in the FTSE 100. 'Some may argue that this would have been a good thing given the poor performance of this sector over the last 12 months on the back of a collapse in the oil price. However, this doesn't mean that this will necessarily be advantageous moving forwards,' says Milburn.

## EUROPEAN EXPOSURE

Another London-listed equal weight ETF is the **Ossiam Stoxx 600 Equal Weight ETF (L6EW)**. Launched in 2011, the ETF attributes the same weight to all 600 constituents of Europe's Stoxx 600 Index.

Fabien Dornier, chief investment officer at Ossiam, says the 100 largest stocks add up to more than half of the Stoxx 600 by market capitalisation while the 200 largest represent 79.4% (as of 31 August). 'By equal weighting the components we maximise the diversification and correct the large cap bias,' he says.

Dornier believes the benefits of equal weighting are greater in the Stoxx 600 than the FTSE 100 as the Stoxx 600 has a far greater number of small cap stocks. 'For an equal weight scheme to be efficient it needs to be a large index. The stocks in the FTSE 100 are all pretty large so equal weighting makes less difference,' he argues.

## TRADING TOOL

Dornier suggests investors could have an equal weight ETF as their core allocation or use it as a tactical trading tool. 'Small cap stocks tend to outperform in rising markets so if you think the market will trend up you could buy an equal weight ETF.'

Since its launch in May 2011 the Ossiam Stoxx 600 Equal Weight ETF has returned 49.2% compared with the Stoxx 600 Index's return of 46.66%. The three year annualised return of the ETF is 16.4% compared with 13.95% for the Stoxx 600 Index – an annual outperformance of 2.45%.

### SIZE BREAKDOWN OF STOXX 600 AND FTSE 100 INDICES

| Index | Large caps | Mid caps | Small caps |
|---|---|---|---|
| FTSE 100 | 99.8% | 0.2% | 0% |
| Stoxx 600 | 93.8% | 5.8% | 0.4% |
| Stoxx 600 Equal Weight | 70.4% | 26.8% | 2.8% |

Source: Stoxx/FTSE/Bloomberg

### OSSIAM STOXX 600 EQUAL WEIGHT ETF – PERFORMANCE

| | |
|---|---|
| Year to date | 10.73% |
| 1 year | 93.8% |
| 3 years annualised | 70.4% |
| Since inception | 49.2% |

Source: Stoxx/FTSE/Bloomberg

# FEAR THE WALKING DEAD

## UNAMBITIOUS, FUNDING BLACK HOLES OR IS THERE ANOTHER SIDE TO ZOMBIE COMPANIES

STEVEN FRAZER

A couple of weeks back the TV series Fear *The Walking Dead* debuted on AMC, the US channel brought to the UK by BT's telly service. If that news draws an exasperated sigh, that's more than understandable. It feels like Brits have been inundated with tales of zombies over the past few years: *The Walking Dead, In the flesh, I survived a zombie apocalypse* – these are just a handful that have appeared on UK TV screens during the past five years, and there's been countless movies featuring the undead.

Zombies have also multiplied across the stock market, living dead companies that continue to limp along with little apparent aim or ambition, and without the motivation or funding wherewithal to do much about it. Beware zombie stocks.

As the UK's economy picks up pace, in comparison to most nations on the continent, it is becoming increasingly evident that the country will face a new set of challenges which it didn't following previous recessions. According to Anthony Ford, a corporate insolvency consultant at the Frost Group, these challenges include a shortage of access to cash/funding, and the rise in the level of the number of zombie firms operating within the UK.

### RISE OF THE UNDEAD

The zombie company phenomenon first rose during the 1980's and 1990's when the US savings and loan associations and Japanese banks managed to blunder along as a result of access to cheap money. In the UK, the term zombie is now often used to describe a company that is loss making which, currently being helped by low borrowing costs, can only just manage to service their debts. This is not a definitive definition, you might also consider companies that consistently fail to put up meaningful growth, those that switch strategy a little too often, or even companies that seem to be forever going cap in hand to shareholders for more money. We've listed a few definitions in the 'What is a zombie company' box, they're similar enough to give you a decent idea of what we're talking about.

Because a zombie's life expectancy tends to be highly unpredictable, zombie stocks are extremely risky and are not suitable for most investors. For example, **Ceramic Fuel Cells (CFU:AIM)** spent more than 10 years developing its technology that used natural gas to produce electricity. These were the types of products that should have been capable of forming an important part of the global future energy solution, yet never quite made the grade. Years of testing, development partnerships and trials, and countless fund raisings ultimately came to nought, as *Shares* predicted back on 19 August 2014 (see 'More misery from Ceramic Fuel Cells').

Given the lack of attention paid to this group, there can often be interesting opportunities for investors who have a high risk tolerance and are seeking

speculative opportunities. One interesting example is **Pure Wafer (PUR:AIM)**. It is a silicon wafer recycling business based in Swansea. But had been a failed business for years, to all intents and purposes, consistently struggling to put up meaningful growth and running up hefty losses, and you can see what this has done for investors over the long term from the chart.

### BACK TO LIFE

Yes, management has been reshuffled this year, a new strategic game plan put in place and a profit has finally been turned, yet this still looks like a business still to prove it has a pulse. Even the recent investor enthusiasm for the shares is more down to the potential cash windfall shareholders will get after the firm finally settled an insurance claim after its factory burned to the ground in December 2014.

The UK economy continues to grow at a steady clip and commentators are becoming unanimous in their prediction for an interest rate rise at the Bank of England occurring within the six to nine months. Interest rates are a tool used by policy makers to keep a lid on economic growth - strong growth inevitably leads to higher inflation which can cause catastrophic problems as time progresses. The thinking goes that the Bank of England will raise rates to ensure the rate of economic growth is steady and healthy, and does not runaway with itself into dangerous bubble territory.

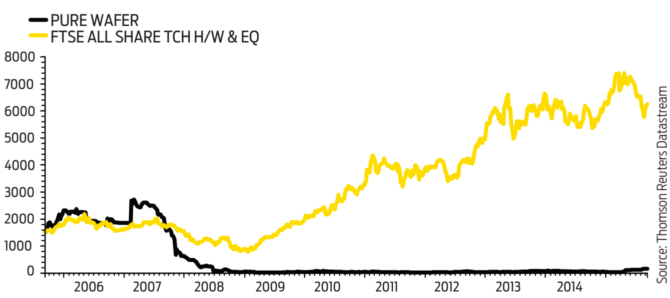
News released on 28 July that the UK economy grew at 0.7% over the last quarter between April and June was largely seen as positive enough to warrant a Bank of England (BoE) policy rethink. Time to finally move the collective mindset out of recessionary mode and on to proper and sustainable growth.

The Institute of Directors (IoD) certainly share this view. It has become increasingly vocal in its call for higher interest rates, urging the BoE to act sooner rather than later following this latest GDP data.

'The Bank of England must now look closely at its interest rate policy,' the IoD's chief economist James Sproule, has suggested. 'This is the latest piece of evidence which suggests the time to start normalising interest rates is now. An economy growing at 0.7%t per quarter, unemployment at just 5.6% and real wage growth of more than 3% has no need for historically low interest rates of 0.5%,' claims.

### WHAT CAN BE DONE

This climate of low interest rates has provided a supportive environment for zombie companies, yet it can be argued that there are too many profitless businesses




## WHAT IS A ZOMBIE COMPANY

**'Companies that continue to operate even though they are insolvent or near bankruptcy. Zombies often become casualties to the high costs associated with certain operations, such as research and development. Most analysts expect zombie companies to be unable to meet their financial obligations.'**
Source: Investopedia

**'A zombie company is a business that can only afford to pay off the interest on its debt, not the capital itself.'**
Source: Griffin & King

**'In the UK, the term Zombie is now often used to describe a company that is loss making which, currently being helped by low borrowing costs, can only just manage to service their debts.'**
Source: Anthony Ford, corporate insolvency consultant

**'Zombie companies are businesses that generate cash but are unable to attract enough investment to pay off their debts. While their income stream enables them to repay the interest on their debts, it doesn't extend to the capital, which is why their name implies that they're half dead.'**
Source: Corporate credit checking consultancy, Graydon

## ONS

- Change in gross domestic product (GDP) is the main indicator of economic growth. GDP is estimated to have increased by 0.7% in Quarter 2 (Apr to June) 2015 compared with growth of 0.4% in Quarter 1 (Jan to Mar) 2015.
- Output increased in 2 of the main industrial groupings within the economy in Quarter 2 (Apr to June) 2015. Services increased by 0.7% and production increased by 1.0%. Construction growth was flat. In contrast agriculture decreased by 0.7%.
- GDP was 2.6% higher in Quarter 2 (Apr to June) 2015 compared with the same quarter a year ago.
- In Quarter 2 (Apr to June) 2015, GDP was estimated to have been 5.2% higher than the pre-economic downturn peak of Quarter 1 (Jan to Mar) 2008. From the peak in Quarter 1 (Jan to Mar) 2008 to the trough in Quarter 2 (Apr to June) 2009, the economy shrank by 6.0%.
- The preliminary estimate of GDP is produced using the output approach to measuring GDP. At this stage, data content is less than half of the total required for the final output estimate. The estimate is subject to revision as more data become available, but these revisions are typically small between the preliminary and third estimates of GDP.
- All figures in this release are seasonally adjusted.

tying up limited bank loan liquidity, money that might be better used by companies that are growing, that are providing jobs, that are more attractive to investors.

In one corner are those who argue that the banks' more stringent lending criteria is welcome, that it has helped to keep a lid on company failures and unemployment and that these zombies will be productive once the economy starts to recover. Others see it differently, believing zombies to be a obstacle to recovery and future growth.

'As turnover increases, so does the need for available working capital in order to fulfil orders and cash flow is squeezed even further,' explains Frost Group's Anthony Ford. This implies that perfectly good quality companies may be starved of the resources needed to respond to an improving economic backcloth. And with lenders likely to be reluctant to either increase or provide new facilities without adequate security, zombie firms will be left little alternative than to go cap in hand to existing shareholders for more money, which usually means the double punch in the pocket of hefty dilution and a starkly lower share price.

Just look at the damage done at nuclear clean-up firm **Redhall (RHL:AIM)** last week (11 Sep). It's shares collapsed by nearly 40% after the company unveiled a £5.8 million cash call and flipped £3 million of existing debt into new shares at a massive discount to the previous day's 10.3p share price close. The new stock was issued at just 5p.

The consequence of this is that while the overall financial conditions within the UK market will improve, and hopefully will provide for an increase in the number of both employment and trade opportunities within the economy, the strains placed on those silent zombie firms tinkering on the edge of failure will be driven further by fierce competitive downward price pressure, led by similar struggling firms who will offer anything to secure new work. Unfortunately, only those firms able to secure sufficient working capital will survive.

## ZOMBIE SPOTTING CHECKLIST

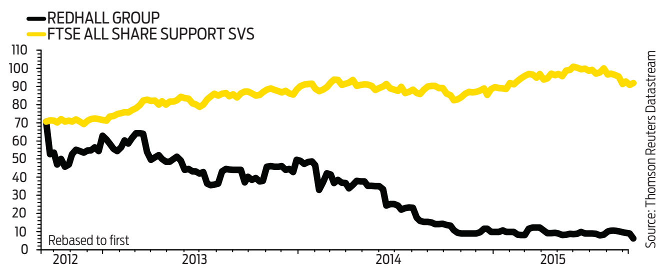
- Have a strategy
- Get checking
- And keeping checking regularly
- Look for red flags
- Research company financials
- Know where the stock trades
- Be wary of frequent name or business strategy changes
- Protect yourself with an exit strategy

### ZOMBIE ISAS

But it's not just zombie equities investors need worry about, there are other less well-known living dead threats to face. The BoE slashed base rates to the current 0.5% way back in March 2009 and returns on cash ISAs have been falling ever since. At the same time global stock markets, the UK included, have enjoyed a near-six year bull run, the past three volatile months aside.

Savers who have used their full cash ISA allowance each year for the past 15 years have actually seen the value of their money fall by £4,218 in real terms after inflation, according to figures from wealth manager Nutmeg produced earlier this year. If they had invested the same amount in a stocks and shares ISA instead, the money would be worth £10,062 more than they invested, in real terms.

Yet cash is still king, with 52% of UK adults taking out a cash ISA versus 17% taking out stocks and shares ISAs, says Nutmeg. No doubt hooked by attractive promotional rates which shrink to next to nothing a few months down the line. Nutmeg has warned that 21 million Brits are sat on under-performing zombie cash ISAs paying minimal rates of interest, and should look to move their money to something with a bit more life. The stock market has its share of zombie firms that need to be very carefully assessed, yet there are plenty of good companies with plenty of life in them. And given the far higher returns of equities versus cash over the longer term, the greater risk is well worth investigating, even for people that have never bought a share before in their lives.



# Best in show

*Packed house as private investors flock to Stock Market Show 2015*


Private investors and market professionals alike flocked to London's Business Design Centre for The Stock Market Show 2015, hosted by *Shares* and the **London Stock Exchange (LSE)**. The full day event (12 Sep), designed to help readers gain a wider understanding about investing in the stock market, once again proved an irresistible draw.

On the day, investors were able to hear from an array of speakers across five stages, including product and market experts as well as quoted company CEOs. They were also given the opportunity to meet face-to-face with exhibitors from a range of AIM companies, brokers and platform providers.

In particular, investors packed out the Main Stage, where, following opening remarks from the London Stock Exchange's Head of Equities and Derivatives Nicolas Bertrand, Russ Mould kicked off proceedings with an engaging presentation entitled 'Red flags, green flags: Signs to note when picking stocks'.

AJ Bell's investment director reminded the assembled throng that investors face a problem, encapsulated neatly by Charlie Munger, who once said: 'The psychology of human misjudgement....is a terribly important thing to learn. Terribly smart people make totally bonkers mistakes by failing to pay heed to it.' Mould went on to explain that investors should avoid going with the herd, since 'buying expensive stocks at any price can get you into trouble', then pointed investors towards 'scratch & sniff' checklists as a solution to the problem.

Among the key 'Green flags' highlighted was a scalable business model with little need (if any) for capital investment – microchip designer **ARM (ARM)** was cited as an exemplar – as well as a sustainable competitive advantage, a 'focus on better not cheaper, revenues not costs', pricing power and also high cash conversion. Notable red flags included a dominant CEO, frequent or transformational acquisitions, management bonuses triggered easily, the regular appearance of exceptionals in the numbers, not to mention weak cash flow and a dangerous mix of high operational and financial gearing.

Next followed a lively panel discussion on Hot Sectors – timely given this week's cover story (see page 20) – involving Mould, CMC's Chief Market Analyst Michael Hewson and Gareth Evans, a former analyst and the founder and managing director of Progressive Equity Research, before *This is Money* editor Simon Lambert extolled the virtues of diversification in de-risking portfolios.

Given today's low interest rate environment, it's no surprise that dividend income was one of the event's hot topics. In a panel session on Investing for Income, Stockopedia founder Edward Page Croft said investors shouldn't blindly pick the highest dividend payer but should consider looking for quality income stocks. 'A very high yield is often a sign that there'll be a dividend cut and that's a reason to look for quality. The top set of dividend yielding stocks underperforms because they often cut their dividends and brokers haven't factored that in their forecasts,' he said. Share Radio analyst Ed Bowsher pointed out that the highest yielding stocks before the financial crisis were the banks. Recently, the big supermarkets had high yields which they've subsequently cut or axed. 'You need to spread your money across the sectors,' Bowsher explained.

Page Croft suggested looking for a company with dividend cover of at least 1.5 times and advised staying away from companies who issue debt to pay dividends. 'It's madness - it's a bit like feeding a cow its own milk,' he said. 'Sometimes only looking at yield can be narrow-minded.' Bowsher added the pharmaceutical sector contains quality companies that pay good yields.

# How to pick funds

*Our top 10 tips on narrowing down the 3,000-strong fund universe*

EMILY PERRYMAN

In our weekly Money Matters section we explore the tools and tricks of the trade to help you make the most of your investments. Whether you're new to investing and don't know where to start or have a gripe about a particular product or service, please email us at **editorial@sharesmagazine.co.uk** and we'll investigate.

Investment funds enable you to hold a mix of assets, spread risk and hand over stock picking to an experienced fund manager, but with over 3,000 funds available on the UK's major investment platforms choosing between them can be mind-boggling.

We've come up with a list of the top 10 factors you should consider when deciding which funds are most suitable for you.

### 1. YOUR RISK PROFILE

Before you make any investment one of the most important questions you need to ask yourself is how much risk you're willing to take. There is a huge variety of funds available which suit investors across the entire risk profile.

Deciding how much risk you should take usually comes down to your investment time horizon. Most advisers recommend that a 30 year old is more heavily weighted to equities than someone who is close to retirement, although if you're 30 years old and are saving for a house deposit your time horizon would be shorter.

'The first thing to consider is your personal circumstances. How long do you want to put your money away for? Can you afford a lump sum for a short time or a smaller amount for a longer time? Consider how much you can happily invest and forget about – funds are usually considered medium- to long-term investments, typically five years or more,' explains Maike Currie, associate investment director at Fidelity Personal Investing.

If you have a very long timeframe you could opt for funds that invest in emerging markets equities, commodities and technology stocks. A low risk investor might prefer a multi-asset fund or an absolute return fund. Multi-asset funds can invest across the entire investment landscape which enables the manager to ride out market volatility. The goal of absolute return funds is to generate a positive return regardless of market conditions.

'Remember at the heart of investing lies the risk-reward ratio – higher risk investments hold the promise of more lucrative returns but also come with a greater risk of losing your money. Establishing what risk-reward trade-off you are comfortable with is one of the most important considerations when choosing a fund and constructing your overall portfolio,' says Currie.

### 2. PERFORMANCE

Past performance isn't necessarily indicative of future performance but it's definitely worth looking at. Sites like Trustnet and Morningstar enable you to find out the cumulative performance over three, five and 10 years.

'These historic figures are no guarantee for the future but a good long-term showing suggests there is a strong process here, run by a team which is capable rather than just lucky,' says Charles Galbraith, managing director at AJ Bell Youinvest.

Cumulative performance can be a bit misleading because a manager could have performed extremely well in one year but underperformed in the others. The discrete annual performance shows how the fund has performed in each individual year.

'Some fund managers provide strong returns in a rising market, whereas others will come into their own in difficult times. In either case past performance should provide a valuable insight into the potential of a fund to outperform prevailing market conditions, although this does not of course offer a crystal ball,' says Caspar Rock, chief investment officer at Architas, the

#### FUND EXAMPLES BY SECTOR

| Sector | Fund | ISIN |
|---|---|---|
| Asia Pacific and emerging markets | First State Asia Pacific Leaders | GB0033874768 |
| Corporate and government bonds | (Morgan Stanley Sterling Corporate Bond) | GB00BHZ7N839 |
| Europe | Threadneedle European Select | GB00B8BC5H23 |
| Flexible, mixed and targeted absolute return | Newton Real Return | GB00B8GG4B61 |
| Global | Newton Global Income | GB00B7S9KM94 |
| Japan | Schroder Tokyo | GB00BGP6BR86 |
| Specialist | Aberdeen Latin America Equity | GB00B4R0SD95 |
| UK growth | M&G Recovery | GB00B4X1L373 |
| UK income | CF Woodford Equity Income | GB00BLRZQC88 |

Source: Hargreaves Lansdown – a selection of the stockbroker's Wealth 150+ funds

## Asset classes and risk

FUNDS INVEST IN a wide variety of assets which give them a particular risk profile. There are three broad categories of risk: low, medium and high.

**LOW RISK**
- Corporate bonds
- Absolute return
- International bonds
- Commercial property
- Protected funds

**MEDIUM RISK**
- Mainstream UK and European
- Well-diversified Asian funds
- Global equity income

**HIGH RISK**
- Technology
- Focussed Asian funds
- Emerging markets
- Smaller companies
- Commodities

Source: Hargreaves Lansdown

AXA-owned investment manager.

### 3. PEER GROUP COMPARISON

When you're analysing a fund's performance it's best to compare it with its peers rather than looking at the figures in isolation. Morningstar has a useful fund screener tool which lets you rank funds by their annualised returns. You can screen funds according to their investment category (for example UK equity income or global emerging markets) to ensure you compare like with like.

'If there was a fund with one really strong year and four weak ones versus a fund which has beaten the market every year we'd probably choose the latter as we'd be taking on less risk,' says Darius McDermott, managing director of Chelsea Financial Services.

### 4. FUND MANAGER COMPETENCY

The performance of an actively managed fund depends on the skill of the fund manager. Look at the manager's track record and experience and see how they've performed in different points of the market cycle.

'Also consider the constraints set by the investment house and how the manager's performance is judged and remunerated. Does the fund manager "eat their own cooking" – i.e. invest in their own fund? Firms such as Morningstar, Standard & Poor's and Moody's offer handy guides to fund performance, creditworthiness and how consistent its management has been,' explains Currie.

### 5. INVESTMENT STYLE

If you want to dig really deep you could try to figure out the fund manager's investment philosophy. This can often be gleaned by reading product factsheets and monthly fund commentary.

'Are they motivated by looking for growth companies with market leading positions or by seeking out companies which are unloved by the market which offer good value? Does either style match your requirements and does the quantitative data indicate that the fund manager has had the courage to stay true to his philosophy?' asks Rock.

There is a risk that a fund manager will diverge from their original investment strategy or leave and be replaced by someone new. In both cases you need to decide whether you're still happy to be invested in the fund.

### 6. FEES

Fees can erode the overall returns of your investment so you should work out everything you need to pay and compare it with other funds' charges. A typical annual management charge (AMC) for an actively managed fund is 0.75%. Funds that invest in riskier assets tend to have higher AMCs than funds that invest in lower risk assets like bonds.

As well as an AMC funds will have additional costs like trustee and auditor fees. This means the ongoing fund charge is a better indication of the costs you'll have to pay, as it includes everything.

McDermott says fees are important but they aren't the be all and end all. 'We're looking for that superior, consistent performance. Remember that the performance you see is after charges,' he adds.

'In the end, it's a trade-off: your time, the fund manager's expertise and the performance of the fund against the costs involved. Whether you feel this trade-off is attractive will be down to your personal circumstances and ultimately whether the money manager delivers the goods,' says Galbraith.

### 7. FUND SIZE

Sometimes funds can get too large which then compromises the manager's investment approach and even hinders performance. Small cap growth funds, in particular, could suffer if the fund gets a large amount of cash from investors and the manager rushes to buy new investments that don't suit the original strategy. There's also a risk that the manager will drive up a small cap's share price by trying to buy a large amount of stock, making it more expensive.

'Whether the fund's size is an issue depends on what type of assets it invests in. If the fund is buying large cap UK shares it can be bigger because of how liquid those shares are. If I was choosing a mid-cap fund and one was £200 million and the other £1 billion then I'd opt for the smaller fund,' says McDermott.

### 8. ASSET CLASS

Once you've chosen a fund you need to assess which class of share or unit you wish to buy. An 'income' class distributes dividends directly into your dealing account, ISA or SIPP (Self-Invested Personal Pension). With an 'accumulation' class dividends and other forms of income are rolled up and put back into the fund, which increases the value of each unit of share held.

In general, the income option is intended for people who need income to support their lifestyle while the accumulation version is seen as a better option for long-term investors because the effect of compounding will significantly increase your pot of money.

'Which one is most suitable for you will again depend on your personal financial circumstances and thus your overall investment strategy and time horizon,' says Galbraith.

### 9. DIVERSIFICATION

It's generally advisable not to put all your money into one fund. If you're choosing several funds you should ensure those funds invest in a mix of assets, as otherwise you'll end up duplicating your holdings and you could be over-concentrated in a single stock.

Currie says you should never make assumptions about the underlying holdings of a fund based on its name or sector. 'Always look under the bonnet of the fund and check this carefully yourself,' she says. 'A fund's underlying holdings may fluctuate depending on factors such as the broader economy, the stock market, rate changes and shifts in the fund's investment style or process,' she says.

You can diversify across assets – for example stocks, bonds, cash and property – as well as by market capitalisation, sector and geography.

### 10. TURNOVER

If you really want to get down to the nitty gritty you could look at the fund's turnover – i.e. how long it holds on to the stocks it buys. The longer it holds stock the lower the turnover will be and the lower the transaction costs incurred by the fund.

# McBride recovery ride

*Risks move to the upside as CEO outlines ambitious turnaround plan*

JAMES CRUX

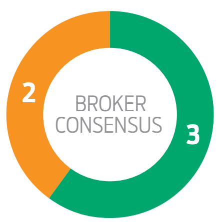
One of the stock market's lesser-known names, **McBride (MCB)** flies under the radar despite the fact the value-for-money products it manufactures are used by millions of consumers on a regular basis.

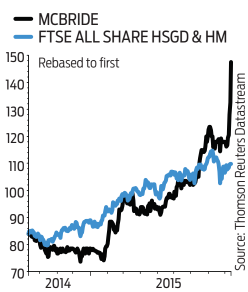
For the uninitiated, the company is Europe's leading provider of private label household and personal care products; it develops and produces everything from dishwashing products to toilet cleaners, toothpastes and shampoos, sold to major grocery retailers throughout Europe and beyond.

## LONG LIST

Impressively, this list includes 49 of Europe's 50 leading retailers, among them **Tesco (TSCO)**, **Wal-Mart-owned (WMT:NYSE)** Asda, **Sainsbury's (SBRY)**, **Carrefour (CA:FP)** and **Metro (MEO:GR)**. Its goal is continue growing as clear leader in private label household cleaning and personal care products in Europe, whilst also pushing into the retail markets of Central Eastern Europe and South East Asia, where private label (see 'Private Label Explained') is in its infancy.

*Shares* has previously outlined a bearish view on the Manchester-headquartered company, with our concerns predicated upon the firm's low growth and poor earnings quality. Though its everyday essentials engender some resilience, McBride's thin margins reflect a periodic squeeze from elevated




oil-derived input costs and pricing power is limited. The reason being that the company manufactures products for large supermarkets and other retailers ever-keen to haggle with suppliers.

There is also stiff competition from fast moving consumer goods (FMCG) groups armed with popular brands – heavy branded promotional activity has a negative impact – and McBride also crosses swords with smaller, privately-owned private label and contract manufacturing companies too. Recent years have been unkind to the £241.4 million cap, exposed to a tough European retail and consumer backdrop, forced to cough up profit warnings as well as restructure and refinance itself.

Yet calendar year-to-date, the shares have stormed higher, responding to positive interim results (5 Feb), soothing trading updates and news of UK restructuring progress, as well as the additional positive catalyst of management change. McBride is now guided by Rik De Vos, a seasoned chemical and manufacturing sector player with several turnarounds on his CV, appointed CEO in February this year, as well as sanguine numbers man Chris Smith, previously finance director at foil and laminates producer API, appointed in January.

Results for the year to June (8 Sep) showed a 46.6% surge in adjusted pre-tax profit to £21.7 million, despite a 5.4% weak euro-driven revenue decline to £704.2 million. Sales were actually

IN A NUTSHELL

## Private Label Explained

'PRIVATE LABEL' PRODUCTS are developed by the likes of McBride for sale under retailers' own brands. In the industry lexicon, they are also referred to as private labels, store brands, own labels, distributor brands or discount brands. They play a key role in today's testing economic environment. Private label products offer shoppers the attraction of lower prices and value for money, bring the attraction of higher margins for retailers, and help grocers to differentiate products and build customer loyalty. In addition, since they encompass both budget and premium ranges, private label wares give scale players such as McBride growth potential across a spectrum of channels and throughout developing and emerging markets. Significantly, private labels are well positioned for future growth, given the continuing consumer quest for value, their improving quality perception among European shoppers and crucially, because they offer a means for retailers to avoid direct price comparisons.

up at constant currency, while savings from a UK restructuring which will continue to bear fruit, as well as lower raw materials costs helped by a low oil price and success with product re-formulations, drove up EBIT margins up from 3% to 4%. Smith also highlighted an improvement in return on capital employed (ROCE) from 12.7% to 18.8%.

### 'REPAIR, PREPARE, GROW'

Yet the real meat of the announcement was the outlining of a detailed turnaround strategy, dubbed 'Repair, Prepare, Grow' by De Vos. This aims to transform and simplify the business, then return it to sustainable growth; the goal is to lift EBITA margins to 7.5% and ROCE to 25-30% on a 3-to-5 year view.

Under the 'Repair' part of the plan, McBride will simplify both the product range and customer base, with De Vos seeking to pare the SKU (stock keeping unit) count by 30% and forge closer relationships with the top 20% of customers. In addition, McBride plans to right-size its overhead base and launch a range of money saving purchasing initiatives. Under the 'Prepare' banner, the plan is to invest in McBride's manufacturing assets and distribution and warehousing infrastructure to make the business more efficient, as well as investigate co-manufacturing opportunities. Then, with a better cost base and more efficient supply chain in place, it will be set fair to pursue the 'Grow' part of tl plan, with a focus on fewer markets, categories and customers.

Crucially, Smith insists McBride can finance the turnaround from operating cash flow and existing resources, with net debt to remain comfortably within McBride's banking covenants. This should avoiding the need for anotl refinancing, though McBri has prudently re-based the dividend to 3.6p (2014: 5p) improve cover and with the financing requirements of the turnaround in mind.

### RISK VERSUS REWARD

We're not exactly brimming with enthusiasm about the industry, though the risks to near-term forecasts are now firmly to the upside. The shares have already run hard and challenges remain. Germany spearheaded the growth last year, though this was offset by weakness across the UK, France, Italy, Spain and Poland.

In the UK, the retail market remains fiercely competitive, with McBride's supermarket customers still enduring weak trading, though it is worth noting that it supplies key discounters in the UK market. And as De Vos informed *Shares* on results day, 'the growth of the discount market is really based on a private label concept'. This means McBride's fortunes are closely aligned with those of the expansionist budget store chains.

Investec Securities has upgraded its rating from 'add' to 'buy' and price target from 105p to 140p, a target the share price has already hit it must be said. For the year to next June however, the broker forecasts strong improvement in its preferred pre-tax profit measure to £26.5 million (2015: £23 million) on sales expected to reduce from £704.2 million to £672 million on a pared number of product lines and customers. Earnings per share growth of 16% to 10.2p (2015: 8.8p) is forecast, supporting an estimated 3.8p payout and placing McBride on a prospective price-to-earnings ratio of 14 times.

That rating doesn't look overly punchy considering the 22% earnings per share growth to 12.4p forecast for June 2017, based on pre-tax profit progression to £32.3 million. Over at Panmure Gordon, number cruncher Gert Zonneveld has increased his price target from 110p to 150p and retains a 'buy' recommendation, while Liberum's Wayne Brown also has a 'buy' rating and 145p target price.

### SHARES SAYS: ▲▼

**We've consistently been bearish on McBride, but things are looking up under Rik De Vos' stewardship. The transformation project will cause further exceptional costs, yet also provides positive catalysts. Even after a strong run up to 143.25p, the shares might still tempt recovery play enthusiasts.**

# HOW

## TO USE... A PEG RATIO

### INVESTMENT METRIC THAT LENDS EARNINGS GROWTH CONTEXT TO SIMPLE PES

STEVEN FRAZER

For years value investors have had a secret weapon in their analysis tool kit. The PEG ratio, or price to earnings growth multiple, isn't used nearly as much as the basic price to earnings (PE) ratio yet it is arguably a more useful metric, and is one that is just as simple to understand, to calculate, and to put to use.

Put simply, a stock's PEG rating is calculated by dividing the PE by the growth rate of its earnings for a specified time period.

**PE RATIO**

**÷**

**ANNUAL EPS GROWTH**

**=**

**PEG MULTIPLE**

The PEG is used to determine a stock's value while taking the company's earnings growth into account, and is considered to provide a more complete picture than the PE ratio alone. This can be applied to historic earnings or to future forecasts EPS. By providing a forward-looking perspective, the PEG can be a valuable evaluative tool for investors attempting to discern a stock's future prospects.

We have previously discussed some of the limitations of using a standalone PE (see *Shares, How to use a PE ratio,* 3 Sep). As my colleague Will Cain explained then:

'In theory, a stock on a low PE ratio is considered cheap and a stock at a high PE ratio

**FTSE 100 LOWEST 10 PEGS**

| | | |
|---|---|---|
| • Barclays | (BARC) | 0.1 |
| • Lloyds | (LLOY) | 0.1 |
| • Centrica | (CNA) | 0.2 |
| • GKN | (GKN) | 0.2 |
| • TUI | (TUI) | 0.2 |
| • AstraZeneca | (AZN) | 0.3 |
| • Old Mutual | (OML) | 0.3 |
| • G4S | (GFS) | 0.3 |
| • Capita | (CPI) | 0.4 |
| • Babcock | (BAB) | 0.4 |

is considered expensive. In practice, stocks rarely trade at wide PE ratio differentials for no reason.

Perhaps the most common mistake made when using PE ratios is finding a stock which is cheap for a very good reason. Next year's earnings might look good compared to the current stock price. But the year after that, earnings fall off a cliff and instead of having a cheap security, an investor ends up holding a stock that looks rather expensive.'

While on its own a low PE may make a stock look like a good buy, factoring in the company's earnings growth rate to get the stock's PEG ratio can tell a different story. The lower the PEG ratio, between one and zero, the more the stock may be undervalued given its earnings performance.

## BULL MARKET WINNER

During the good old days of the bull markets of the late 1990s and mid-noughties picking up shares on a low PEG proved a good way to ride the market's upward momentum. Intuitively, it is easy to see that a relatively low PE multiple attached to relatively high earnings growth stock should represent excellent value. Less easy to determine is what the 'right' multiple should be for a given level of growth. One useful rule of thumb is to search among companies where the PE is lower than the earnings growth rate predicted by the City.

The PEG, popularised by stock market wheeler-dealer Jim Slater, is a useful shortcut to finding growth stocks at a reasonable price. Companies with a PEG of well under one imply that the share price has not yet caught up with the potential for exciting earnings growth in future.

Investors find the PEG factor useful because it can serve a double function. Its main job is to highlight companies which sport a low PE ratio relative to their expected EPS growth rate and are therefore, all other things being equal, good value. Just as important, however, PEGs can be used to spot flaws in average growth rates. For example, negative earnings growth in a single year would give a negative PEG rating, or as in many cases, leave a blank where the PEG should be. This means investors can spot patchy historic earnings growth.

## PEGS TO HANG YOUR HAT ON

If we apply the earnings growth track record rule and hunt through the FTSE 100, we find 63% of Britain's blue-chips sport PEG ratings. However, only 30 of those 63 stocks have PEGs in the Goldilocks zone of below one, and above zero, potentially slimming down a value investors field of research to less than a third of their original field.

Yet PEG ratios are not fool-proof. As we see from the lowest five Footsie PEG's, several banks and financial services firms feature, sectors where earnings are not necessarily fundamental investment functions. It also fails to incorporate dividends, therefore missing one of the most fundamental valuation metrics for many investors.

Thorough and thoughtful stock research should involve a solid understanding of both the operations and financials of the underlying company. This includes knowing what factors the analysts are using to come up with their growth rate estimates, and what risks exist regarding future growth and the company's own forecasts for long-term shareholder returns.

Investors must always keep in mind that the market can, in the short-term, be anything but rational and efficient. While in the long run stocks may be constantly heading toward their natural PEGs of one, short-term market factors can create anomalies between fundamentals and share prices, and PEG ratios are a very useful tool in spotting some of the market's flaws.

In the box *A tale of two PEGs* we see two companies, both trading on seemingly reasonable PE multiples, but if that was as far as our analysis went, Topsy plc would look the better buy given its lower PE rating of 11.1 versus Turvy plc's 12.5. But this is just where the extra EPS growth calculations weapon of the PEG can shed new light.

While Topsy plc is expected to grow EPS at a not unreasonable 12% in the year ahead, Turvy's extra four percentage points of anticipated growth makes all the difference to the value case, as demonstrated by the better value PEG rating of 0.78 versus 0.93.

### A TALE OF TWO PEGS

**TOPSY PLC**
- Shares price: 100p
- Forecast EPS: 9p
- Forecast EPS growth: 12%
- PE: 11.1
- PEG: 0.93

**TURVY PLC**
- Shares price: 175p
- Forecasts EPS: 14p
- Forecasts EPS growth: 16%
- PE: 12.5
- PEG: 0.78

### PEG RATING THEORY

1 = PE fairly reflects current growth prospects

0.01 = PE gives little or no credit to current growth prospects

1+ = PE over and above current growth prospects

-0 = Typically would mean no earnings growth, or even no positive earnings at all – PEG not useful in such cases

### PE RATING RULE OF THUMB

PE multiples and market perception

5-10 lowly rated

10- 15 medium rated

15-20 highly rated

20+ racy rating

*A PE below 5 should probably be ignored since it is more likely to suggest that the market simply does not believe the company fundamentals than that the stock is super cheap, but this is, remember, just a rule of thumb.

# Cohort divisions march in step

*Defence specialist's acquisitions and contract wins bolster visibility*

SEÁN FLYNN

Despite a 65% advance year-to-date we think there is more to come from defence specialist **Cohort (CHRT:AIM)** at 382.1p.

*Shares* visited the business at a key site in Beckington, Somerset to take its temperature. Recent acquisitions, sound fundamentals (as exemplified by a steady newsflow of contract wins) and a highly competent management team suggest the momentum should continue well into 2016.

## HANDS-OFF APPROACH

The group is comprised of five discrete divisions and Cohort's structure offers each of the group's businesses the autonomy of a standalone business. This hands-off approach to each segment's operational capability has to date proved highly successful.

Of the group's five arms – MASS, MCL, SCS, SEA and the recent addition EID – the former is the stand-out performer at present.

MASS, which focuses on electronic warfare operational support and secure information systems, delivered an adjusted operating profit of £5.5 million in the year to the end of April and an order book of £53.4 million bodes well for 2016.

Admittedly, a change in the mix of work coming through has impacted on profitability at the business and net margins now stand at around 16.9%. Management expects MASS to maintain this margin level going forward as it grows its cyber-offering which typically involves the employment of more bought-in equipment.

Acquired in July 2014, MCL sources, designs, manufactures, supports and provides training on systems for end users including the UK armed forces and other government agencies. This division has been immediately earnings accretive, making a contribution of £1.3 million of adjusted operating profit on £10.1 million of revenue.

More recently (13 Aug) , MCL secured an Ministry of Defence hearing protection contract worth £11.2 million. Analyst Chris Dyett at Investec made no change to his 2016 forecasts on the basis of the contract win but did upgrade his full year 2017 revenue forecast by £3.5 million and EBITA (earnings before interest, tax and amortisation) by £300,000 and increased 2018 forecasts by £4.0 million and £400,000 respectively.

Technical advisory business SCS provides a wide range of technical support, consultancy and managed services to a diverse customer base but its principal client has been and remains the UK Ministry of Defence (MoD) and its agencies. Other customers include NATO, EDA and UK government departments. SCS continues to operate in a tight environment but still managed to grow its MoD revenue in 2015.

Advanced surveillance systems and software division SEA is an expert in naval and tactical communications, providing solutions for the UK submarine flotilla and tactical battlefield data systems. SEA also provides a range of simulation-based training solutions and middleware to provide realistic training for complex environments.

This group is currently digesting the J+S acquisition which it completed in October 2014 for £12 million. J+S supplies systems and in-service support for the defence and offshore energy markets. This segment had another strong year with adjusted operating profit growing to £4 million and the improved result reflected higher revenue in its defence business with deliveries continuing on the delivery of the External Communications System (ECS) for the Astute class of submarines.

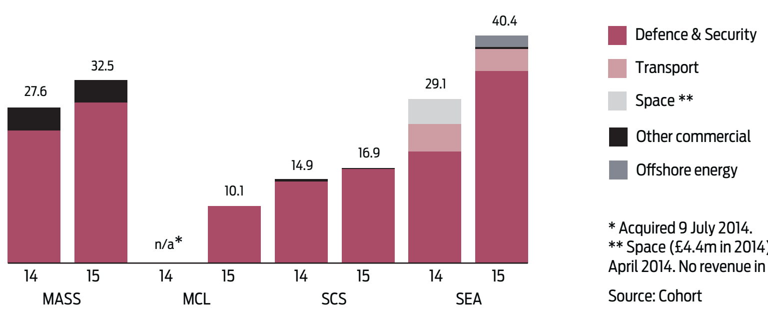
Work has now started on the remainder of the UK's submarine fleet under the Common ECS programme. The division's order book at year end stood at £68 million compared to £25.3 million in 2014.

## ASTUTE DEAL

Speaking to *Shares* at an SEA site in Beckington, Andrew Thomis, Cohort's chief executive stressed the importance of the submarine business as a major growth area for the group.

Elsewhere, the £13.3 million acquisition of Portuguese defence specialist EID on 5 August looks like another astute deal for the £156.1 million cap and added to Cohort its fifth standalone

### Total revenue by business (£m)




* Acquired 9 July 2014.
** Space (£4.4m in 2014) sold 30 April 2014. No revenue in 2015.
Source: Cohort

SHARES EXPLAINS • SHARES EXPLAINS •

*What does this company do?*

division. Like its counterparts it is a cash-generative business with a strong order book.

Cash-rich Cohort will fund the deal in part from the £19.7 million it already has in the bank as well as from a new debt facility.

'With EID providing complementary products and markets to those already being served by Cohort, as well as increasing manufacturing flexibility for the group with a well invested and low-cost electronics production facility, we view the deal as positive,' says Edison Research analyst Roger Johnston.

Cohort boss Thomis was keen to emphasise the attractions of the EID acquisition. 'This is a world class technology company,' stressed Thomis. EID supplies high performance electronic equipment to some of Europe's top navies and Thomis highlighted the Portugeuse company's competitiveness, having being forced to adopt to a significantly lower cost base since the onset of the financial crisis in 2007/8. He pointed out that the deal would complete at some stage this month (September 2015).

EID generated revenue in the year to December 2014 of €14.5 million and EBIT (earnings before interest and tax) of €1.4 million, so margins at the group at least look in keeping with its purchaser's own profitability. A strong order book of €35.2 million at 31 March 2015 and a promising pipeline of further sales prospects are prompting analysts like Investec's Chris Dyett to rate the acquisition as around 2% earnings per share accretive in FY16 and 8% thereafter.

Overall, Cohort's cash performance has been impressive in 2015. Operating cash flow for the year was £18.8 million compared to £2.6 million a year earlier. This strong cash position has offset the significant investment outflows in acquiring MCL and J+S.

Despite delays, the sale of SEA's Space business was concluded with the group receiving the £1.5 million it expected in respect of working capital acquired by Thales Alenia Space and this was on top of the £2.5 million in completion monies received earlier in the year. The year end cash position was ahead of internal expectations but was flattered by the timing of contract receipts and supplier payments around the year end. Management point out that this position will reverse in the coming months.

Cohort has a strong order book; its closing book for year end came in at £134 million compared to £81.7 million the previous year and this in a very tight market. The order book represents around 1.2 years of order cover, with around £71.6 million or two thirds of this is set for delivery in full year 2016. MASS and SEA in particular show strong visibility going into next year.

Risks to the Cohort investment proposition are no different in many regards to those facing most companies in the defence sector but Thomis clearly sees more upside risk than downside in the current geopolitical situation.

The Autumn Budget position on defence was another reason for Cohort to take encouragement and the government's very public underlining of its commitment to the UK's submarine-based nuclear deterrent suggests that the group's faith in submarines as a growth area going forward is not misplaced.

**SHARES SAYS: ▲▼**

**Cohort has been a very successful *Play of the Week*. Recent acquisitions and contract wins are likely to solidly underpin earnings forecasts over the coming couple of years. Investec is bullish with a 420p target price and we share the broker's optimism.**

# Big future for big data

*Industry expert discusses BDA opportunity*

IVAN TEH

Big Data is a hot topic. It is essentially a phenomenon where data that comes with volume, variety and velocity needs to be analysed with algorithms to reveal patterns, trends and associations. It is an emerging and important business opportunity and organisations that leverage this could be extremely successful.

Think about the endless (and ever growing) amounts of data waiting to be mined, analysed and made sense of; think about the endless possibilities and opportunities that businesses and the powers-that-be in organisations are now presented with. Against this background Big Data Analytics (BDA) is one of the most searched for terms on the internet; it is that significant.

In a recent Capgemini Consulting survey, 'Cracking the Data Conundrum: How Successful Companies make Big Data Operational', 60% of the 226 respondents (questioned across multiple regions and business types globally) said they believe that 'Big Data will disrupt their industry within the next three years'.

Global market research company, Gartner, predicts that by 2020, there will be as many as 26 billion connected devices, versus 3.9 billion in 2014, and this will drive rapid growth of complementary BDA, with an anticipated CAGR of nearly 30% over the next five years (according to the International Institute of Analytics). Gartner has also predicted that Business Intelligence and Analytics will remain the top focus for CIOs worldwide and this trend is set to continue through to 2017.

**Ivan Teh,** CEO of AIM-quoted Big Data Analytics specialist Fusionex

## TANGIBLE VALUE FROM BDA

With BDA as an emerging opportunity, organisations are at different stages of maturity in its usage. Some organisations are more advanced, while others are just beginning to 'dip their toes in the water' before mining for value the 'ocean of data' that awaits them.

One of the biggest challenges for organisations seeking to benefit from the vast quantities of data available is how to democratise Big Data and to make BDA more accessible to more people. That is why **Fusionex (FXI:AIM)** GIANT, our own BDA offering, contains not only tools that can be used by data scientists but also self-service tools for business analysts and virtually any user – so that everyone can take advantage of the insights on offer.


This approach stems from a belief that BDA should not be seen as technical jargon created to intimidate people and business users alike. Analytics and Big Data should be approached as an opportunity to unlock insights in new, emerging types of data and content, to make today's businesses more agile and forward-thinking, as well as answer to questions that were previously considered beyond the reach of business users.

BDA provides a way for businesses to derive solid and tangible business values from their day-to-day operations. Fusionex has been at the cutting edge of this movement, evolving BDA from descriptive analytics ('what happened') and diagnostic analytics ('why did it happen') to predictive analytics ('what might happen') as well as prescriptive analytics ('what is the recommended action to take').

## BDA, IOT & SMART CITIES

A major global trend we are also seeing is the convergence of Big Data with the IoT (Internet of Things) to capture vast amounts of streaming data in real time. Such live data streams can be used in a variety of scenarios. A good example of this would be in the area of transportation, where an application with the schedules (and any changes in schedules) of all public transport systems within a city like Singapore is made available online in near real-time.

BDA can then be used to understand the usage and flows of the system, enabling a 'Smart City' or a 'Smart Nation' with better transport planning, budgeting and operational delivery. By making the schedule available online, accessible via mobile and searchable, it also promotes overall transportation efficiency thus greatly contributing to an increase in citizens' standard of living.

It is not just Smart Cities that are achieving real cost and efficiency benefits, however, we are also seeing businesses leveraging the IoT alongside BDA. In a recent initiative with one of our clients (Intel), Fusionex GIANT was used to analyse the vast amounts of data generated by its manufacturing equipment and apply predictive analytics to forecast when its manufacturing equipment was likely to fail. As companies come to understand that Big Data is not to be feared but rather, by using BDA effectively, to be embraced, this trend should only accelerate.

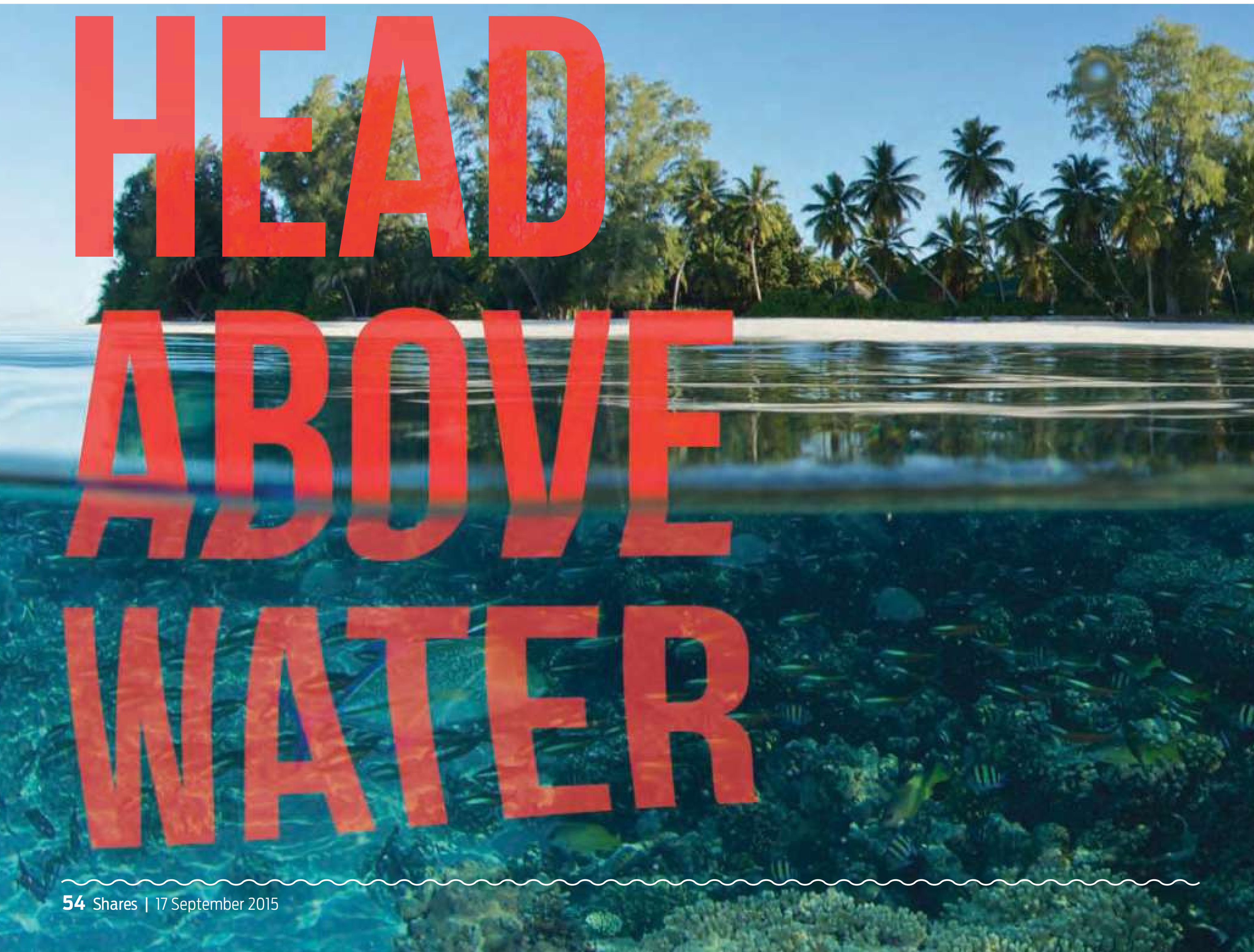
# KEEP YOUR HEAD ABOVE WATER

*What you can do when forex markets are particularly volatile, how you can protect yourself from substantial losses and what strategies can prevent you from being exposed in the wrong areas*

DAVID JONES

After some months of fairly uneventful trading in the foreign exchange markets, volatility came back with a bang in August as the Chinese authorities decided to allow that country's currency to devalue against the US dollar. This was something of a shock to say the least, and did wake up plenty of currency pairs from a period of largely sideways movements.

Increased volatility is always welcome if the major moves goes in your favour. But bigger swings mean bigger risks and potentially larger losses. So what are the best ways of managing this and trying to profit from



opportunities when markets turn a little wild? We spoke to some experts to find out what they would recommend.

Michael Hewson from CMC Markets explains why volatility can very good news for traders. 'It's one of those popular myths that FX traders don't like volatility, when the opposite is true, though as with anything in life it's all about degree. The old adage of wait for the market to come to you has never been truer when awaiting an opportunity to execute a plan of action when markets are exceptionally volatile.'

## LET THE MARKET COME TO YOU

This is a very important point. When you are in front of your screen watching a very short term chart and prices are moving quickly, it can feel like if you don't get in now you are going to miss a move of many hundreds of points. This can sometimes be the case, blindly chasing a fast moving market is hardly a disciplined approach to trading. If you get in and the market reverses by 50 points what are you going to do? Hang on or get out? And while you are thinking about it and the market moves another 50 points against you, what next? If market volatility steps up it can be a sign that no one is really sure of where the market should be - what the true value is. Contributing to this by trading like a headless chicken is not to be recommended. Decide on your entry and exit points and let the market come to the area where you think it is prudent to open up a position.

So we have decided not to just jump in blindly when markets are moving more than usual. What else should be considered? A top down approach for our trading strategy is a good start - something that Angus Campbell of FxPro expands on.

'There's been a clear increase in volatility from 2014 to the first half of 2015. For example, the daily range for Cable (GBP/USD) was 0.48% compared to 0.82%, weekly range was 1.23% compared to 2.14% and monthly range was 2.39% compared to 4.66%. This is just one example of how much more volatile the FX markets have been this year.

'This might mean clients consider a number of things to ways they can adjust from reducing their lot size to widening their stops or even placing fewer trades as more volatile markets make for trickier trading conditions.'

So the volatility may suggest to us that we want to be even more selective when it comes to picking opportunities – focusing where there is a clear entry point and a logical place for the stop loss, and if that stop needs to be wider than usual, reducing our exposure so the actual financial amount at risk is in step with our attitude to managing our account. It's an approach seconded by Chris Beauchamp of IG.

'In high volatility periods,

when whipsaw movements predominate, the protection of capital becomes even more important than normal. Better to accept lower returns than see the hard work of months lost in the space of a few hours.'

When it comes to picking what to trade, it can feel that we are spoilt for choice when markets step up in activity. Don't be tempted to try and trade everything - it's more important than ever to focus on the *right* opportunities - as illustrated by James Watson from ADS Securities UK.

'One piece of advice, which not many traders follow, is to make sure that you are trading the right instrument. This may seem a strange comment. But if, for example, cable (GBP/USD) is moving quickly and unpredictably, it is worth checking what EUR/GBP or GBP/JPY are doing. The may be reacting to the same dynamics as GBP/USD but in a less volatile and more predictable pattern. Following a different pair linked to - but less influenced by - breaking news and intraday flows, may allow you to make rather than lose money.'

So we have done all of the above and found our market to focus on. How can we make the volatility work for us and use it to identify a trading opportunity? Back to Michael Hewson at CMC Markets. 'Volatility is an opportunity to make money as markets oscillate between various support and resistance levels. Sometimes these support and resistance levels will hold and sometimes they won't but that's why the nimble trader will have a decent risk management strategy, and in particularly choppy market conditions the use of guaranteed stop losses is always a sensible option, even if they are slightly more expensive.'

## SETTING UP TRADES

Watching how the market reacts around previous important highs and lows can help set up trades with an attractive risk versus reward payoff. It's never too hard to find good examples of this in hindsight - but actually executing a trade when markets are moving violently does take confidence. A nice recent example was in GBP/USD in early September. Over a couple of weeks the currency pair declined 600 points in a fairly steady move but the lows from early June around 1.5170 were an obvious major point of support to watch. That level was breached - but by less than 10 points - and it did set up a bounce back of more than 200 points over a few days. This is almost a textbook example of letting the volatility work in your favour and waiting for the market to hit an optimal entry point for the trade.

This potential trade setup was clear from the daily charts. Just because markets are volatile, don't think that you have to look at really short term charts to focus on every tick in the market. As IG's Chris Beauchamp explains: 'Periods of high volatility mean that it is more important than ever to stick with longer-term time frames. Even in quiet periods, short time periods lead to frequent 'nannying' of trades – while this can still happen in longer time frames such as the four-hour, it is less likely. By combining this with reduced position sizes and a widening out of stops, traders can regain some of their peace of mind and avoid being caught by whipsaws.'

Managing the risk on a trade is important at the best of times - and more so when volatility steps up. Traditional stop losses should always be used when trading - if you do not have a point where you decide your view is incorrect you really are just gambling. But if markets are moving quicker than normal there is always the risk of 'slippage'. This is where your stop loss ends up getting filled at a much worse level than you were expecting. Now some people are happy to take that extra potential risk on board - but if you are not there is a way of guarding against this and that is using the guaranteed stop loss.

This does what it says on the tin - even if there is a shock move in the market that sends a currency pair hurtling through your stop loss level, the trade will still be closed at the level you specified. As this is a form of extra insurance it normally has to be paid for - usually via a wider bid/offer spread when the trade is opened - but for some people an extra few points is worth it for the piece of mind.

Stops can also be used to exit a position for a profit. When a market is moving quickly this can often be the preferred method, to try and squeeze out as much from the trade as possible. James Watson of ADS is an advocate of this. 'The uncertainty that heightened volatility brings to the market can also make a good opportunity to use what are known as trailing stops. Clients using algorithmic trading such as an Expert Advisor in the MT4 application can set this up to move the stop-order, essentially chasing the market. Taking the example of a long position, the stop level can be moved up as the market rises.'

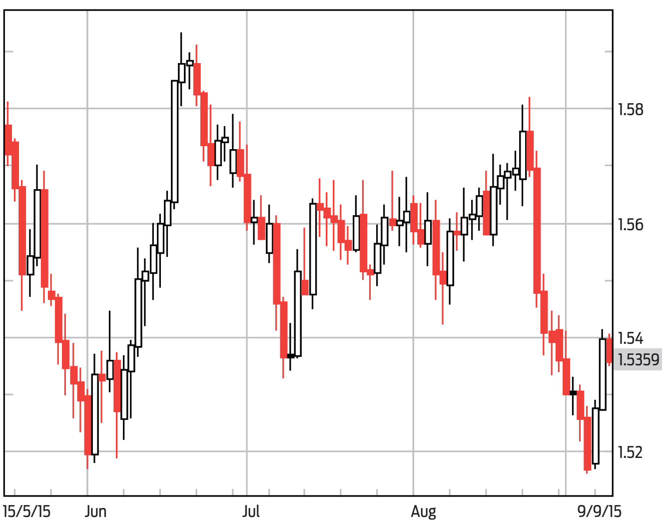
## CONSIDER OPTIONS

One alternative trading instrument that could be considered is the option contract. It's not something available from all brokers, but plenty now do let their contracts for difference and spread bet clients use these as a way of trading currencies. The big advantage of using an option for a straightforward directional trade is the absolute risk is known right from the start - you can never lose more than what you paid for the option.

The downside is that option prices are affected by market volatility - in times of increased volatility option prices will go up, so you do end up paying a premium sometimes if the market moves are particularly violent.

The other downside is that time is against you - options have a definite expiry unlike other forms of trading. As the days roll on, the option

### GBP/USD




www.sharescope.co.uk Chart (c) ShareScope

## “DECIDE ON YOUR ENTRY AND EXIT POINTS AND LET THE MARKET COME TO THE AREA WHERE YOU THINK IT IS PRUDENT TO OPEN UP A POSITION”

will be decreasing in value even if the market is not actually doing much. But for some this is a price worth paying if they have an absolute view of market direction and do not want to get taken out of the position just in the day to day noise.

For example, at the time of writing the euro/US dollar (EUR/USD) exchange rate is 1.1200. A trader may think this is market that is going to rise over the coming weeks but does not want to get stopped out of a trade if it drops in the short term.

An option that expires in two weeks with a strike price of 1.1200 is currently 110 to buy. If in a couple of weeks the market has risen as expected and is trading at 1.1400 then that option will be worth 200 (1.1400 market value - 1.1200 strike price). If the market ends up below 1.1200 at expiry the option will be worthless - but the trader’s maximum risk is the 110 paid. Options can be just another way to try and ride out short term volatility in the market and manage the risk.

As mentioned at the start, volatility need not be the enemy of forex traders. It can present some excellent opportunities as the market swings around wildly. The risk should not be underestimated but most brokers these days offer a wide range of steps that can be taken to manage that. Reducing the position size of trades is also another option - if your analysis tells you that your stop loss for example needs to be twice as wide as normal, due to the increased market range then a sensible approach would be to cut the normal position size in half.

This way you can try and take advantage of the volatility but still only risk your normal financial value on any one idea. There are far too many horror stories of traders giving back months of profits in just a few minutes when market volatility flares up - don’t be the one who adds to these statistics. Embracing the volatility while keeping a beady eye on the downside should give you a better chance than most of profiting from these larger moves.

# Fishing for bargains

*We flag sinking stocks where the charts point to upside*

DAVID JONES

REGULAR READERS OF this column will know that the mantra is: the trend is your friend. Not for us the bombed-out shares that surely 'cannot go any lower' - the ethos here is all about buying into strength. But some people do like to take a more aggressive approach so this week features a couple of shares from sectors that have really suffered in recent years but maybe, for the brave of heart and wallet, there could be some rosier times ahead. There is an argument for both that the current bout of weakness is an opportunity to get in at a better price than previously - and with well-defined levels for a stop loss, this week we indulge in some attempted bottom-picking.


## Sainsbury's (SBRY)

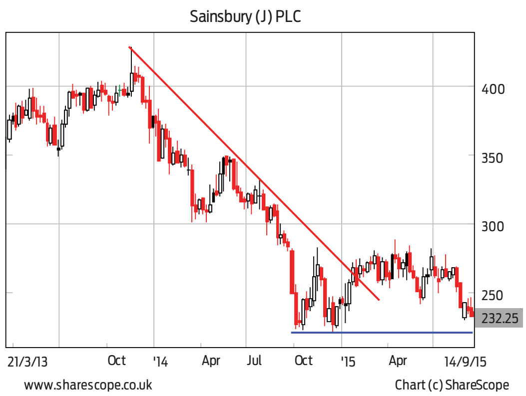
**Buy** 235p

**Target** 290p

**Stop Loss** 215p

IT'S NOT BEEN a great few years for the share price of this UK supermarket company. It peaked around the 420p mark in 2013 and then spent the next two years in decline stopping just ahead of 220p towards the end of last year. An impressive 30% rally did follow but has since faded. This has brought the price back to those multi-year lows once more.

But this is where it gets interesting for us chartists. The strength at the beginning of this year does make a strong argument for the end of that two year downtrend. If that argument is going to hold water, then this current bout of weakness should be just a short term setback and one that should stop ahead of the 220p lows once more. This gives a logical level to set a stop loss, and a decent risk reward, assuming the price is going to bounce back to at least the highs from earlier this year and maybe beyond.




## ARM (ARM)

**Buy** 930p

**Target** 1250p

**Stop Loss** 790p

BY CONTRAST, CHIP manufacturer **ARM (ARM)** has had a great few years thanks to its association with the likes of **Apple (AAPL:NDQ)**. With the share price rising above 1200p earlier this year, that was a more than tenfold return for investors since early 2009. But as another example that nothing goes in one direction forever the last few months have seen a sharp decline.

That corrective trend - because that is all it is at the moment - does seem to have run out of steam based on the bounce in recent weeks. The buyers came back in ahead of the 800p level so, for the more aggressive investor, this could be an opportunity to buy into the ARM story using that 800p point as somewhere to take a manageable loss if it again dives lower.

# Crunch time for US currency

*Weakness in the dollar could follow key interest rate decision*

DAVID JONES

The date of publication for this week's edition of *Shares* - Thursday 17 September - is quite possibly been ringed in red in the diaries of many economists and currency traders. This is when we hear the latest pronouncement from the US central bank, the Federal Reserve, on monetary policy and interest rates. Apart from the slowing down of China, exactly when the US would pull the trigger on raising rates has been the main concern for markets for some time now and, earlier this year, September was the best 'guesstimate'.

But as is often the case with deadlines financial, this has changed. At the time of writing the market was pricing in only around a 30% chance of a rate rise this month. Most people though do still think it will happen this year, with December the current favoured month.

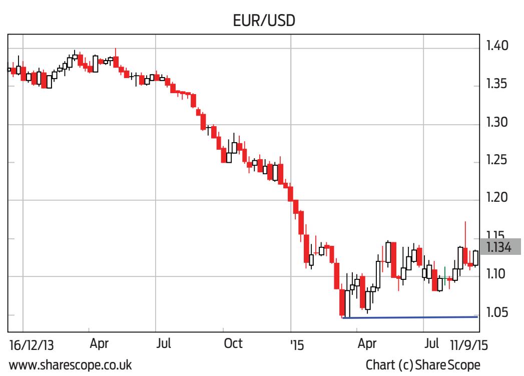
So what effect is this likely to have on the US dollar? First of all, whether it is September or December or somewhere in between, the market is definitely pricing in a rise in American interest rates this year. Whenever it comes, it is expected - although the timing as to which actual month it happens in could definitely provide some short term volatility. Markets are not expecting a large move - a 0.25% hike in rates is the almost certainly the biggest move the US will make.

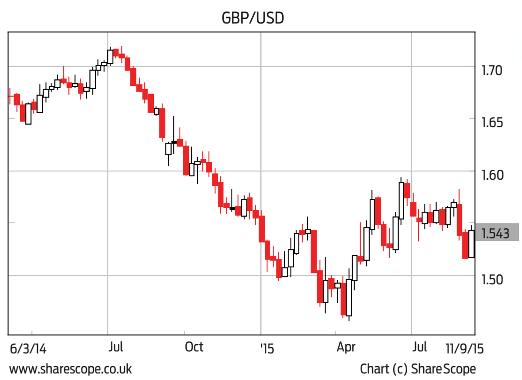
What is probably going to be more important when this interest rate rise comes out is the dialogue around it from the Federal Reserve chair, Janet Yellen. What she says in the press conference will be pored over and dissected for quite some time. If you think when the rate rise happens that's the end of speculation about interest rates - think again. The game then will be to figure out just how fast the next one is coming and just how high rates could go.

There have already been cautionary noises from the likes of the International Monetary Fund and the Bank of International Settlements (BIS) about the impact a rise will have on a fragile world economy. The BIS - referred to by some as the bank of central banks - have warned that debt ratios are at extreme levels in all sorts of economies around the world and even a small rise in rates would leave the global economy acutely vulnerable to shocks. But many people do feel rates have to go up - and should have gone up long before now - because if world economies need some sort of stimulus further down the line, rates can hardly be cut much lower.

Back to how the US dollar may move. If markets thought the first rate rise was the sign of even more to come, it would be dollar positive. One thing that can drive currencies higher is the interest rate, making it a more attractive place to park your money. But, given some of the rumblings seen in various markets lately, it seems unlikely we are going to see a series of swift rises from the Fed.

As every currency trader and his dog seems to be expecting rates to rise this year, when the news is finally out we could actually see US dollar weakness. It is a variation on the old adage of 'buy the rumour, sell the fact' occasionally quoted for stock markets. A market rises in anticipation of good news and when the news is out everyone who wants to buy has bought - and there is only one way for it to go. So barring any aggressive outlook from the Fed about any more imminent rises, buying the likes of the euro and the pound against the dollar could well be the more sensible medium term position here.




# What we are saying...

## SharesMagazine.co.uk

## Get in touch

The hugely successful **Stock Market Show** on Saturday 12 September (see page 60) was a great opportunity to get feedback from our readers and we really enjoyed meeting so many of you on the day. We are keen to get as much input from you as possible. If there are any burning investment questions you want answered or stocks, sectors, asset classes or themes you want covered in the magazine just get in touch (details below) and we'll do our best to oblige.

Don't sit in silence, let us know what you are thinking

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## A rich library of videos

Our video collection of company interviews, presentations and market discussions is growing fast. In addition to the printed magazine and online stories, we also have a large number of videos that can be viewed for free via www.sharesmagazine.co.uk/videos.

Recent additions to the website include presentations from Ortac Resources, Rockhopper Exploration, Alliance Pharma and Scotgold Resources. We have regular broadcasts from AJ Bell's investment director, and former *Shares* editor, Russ Mould in his 'Breaking the Mould' feature. You can also view videos from recent conferences including some of the speakers at the Retirement Money Show.

If you have ever wanted to come to our investor evenings or conference but couldn't make it on the day, fear not. We will endeavour to film as many of the attractions as possible, so you can enjoy the content from the comfort of your armchair at home.

We are pleased to say that all the talks from last weekend's **The Stock Market Show** will be uploaded to our website over the coming days, so make sure you visit the www.sharesmagazine.co.uk/videos to enjoy the high-quality content.

## 33+ REASONS TO VISIT OUR WEBSITE

MAKE SURE YOU VISIT THE SHARES WEBSITE EVERY DAY AS WE PUBLISH EXTRA STORIES THAT DON'T APPEAR IN THE PRINT EDITION.

IN THE PAST WEEK ONLINE WE HAVE COMMENTED ON:

Micro Focus, BHP Billiton, Glencore, Next, MyCelx, Herencia Resources, Gable, Dixons Carphone, Amphion Innovations, Stride Gaming, Inmarsat, Victoria, Redhall, Botswana Diamonds, Great Western Mining, Mirada, ARM, Trinity Mirror, Chemring, Motive Television, Noricum Gold, Active Energy, Applegreen, Biofrontera, Kingfisher, Ocado, Mosman Oil & Gas, Vipera, Sareum, Hydrogen, Hastings Direct, DekelOil and more. Make sure you don't miss out.

THE BEST & WORST PERFORMERS

# DATABANK

## FTSE 350

### TOP 10

**1 MONTH ▲**

| COMPANY | EPIC | PERFORMANCE (%) |
|---|---|---|
| Amlin | AML | 24.8 |
| OneSavings Bank | OSB | 23.3 |
| AO World | AO. | 17.7 |
| Polymetal International | POLY | 17.6 |
| TUI AG | TUI | 15.2 |
| Marshalls | MSLH | 13.9 |
| Vedanta Resources | VED | 12.6 |
| IP | IPO | 11.0 |
| Lookers | LOOK | 10.3 |
| Regus | RGU | 9.2 |

**3 MONTHS ▲**

| COMPANY | EPIC | PERFORMANCE (%) |
|---|---|---|
| Telecom plus | TEP | 36.8 |
| Alent | ALNT | 31.8 |
| JD Sports Fashion | JD. | 31.3 |
| Amlin | AML | 31.2 |
| HellermannTyton | HTY | 28.5 |
| OneSavings Bank | OSB | 25.0 |
| Hikma Pharmaceuticals | HIK | 22.9 |
| Cineworld | CINE | 19.6 |
| Marshalls | MSLH | 18.3 |
| Rank | RNK | 17.6 |

**12 MONTHS ▲**

| COMPANY | EPIC | PERFORMANCE (%) |
|---|---|---|
| JD Sports Fashion | JD. | 123.9 |
| Greggs | GRG | 108.8 |
| Marshalls | MSLH | 87.8 |
| Redrow | RDW | 81.4 |
| Taylor Wimpey | TW. | 78.9 |
| OneSavings Bank | OSB | 78.0 |
| Regus | RGU | 74.9 |
| Crest Nicholson | CRST | 74.7 |
| Barratt Developments | BDEV | 72.4 |
| Cineworld | CINE | 72.4 |

### BOTTOM 10

**1 MONTH ▼**

| COMPANY | EPIC | PERFORMANCE (%) |
|---|---|---|
| Entertainment One | ETO | -18.6 |
| Drax | DRX | -19.8 |
| Clarkson | CKN | -20.6 |
| Standard Chartered | STAN | -21.1 |
| Ophir Energy | OPHR | -23.4 |
| Petra Diamonds | PDL | -26.6 |
| Evraz | EVR | -27.1 |
| Glencore | GLEN | -30.0 |
| Premier Oil | PMO | -31.4 |
| Lonmin | LMI | -46.3 |

**3 MONTHS ▼**

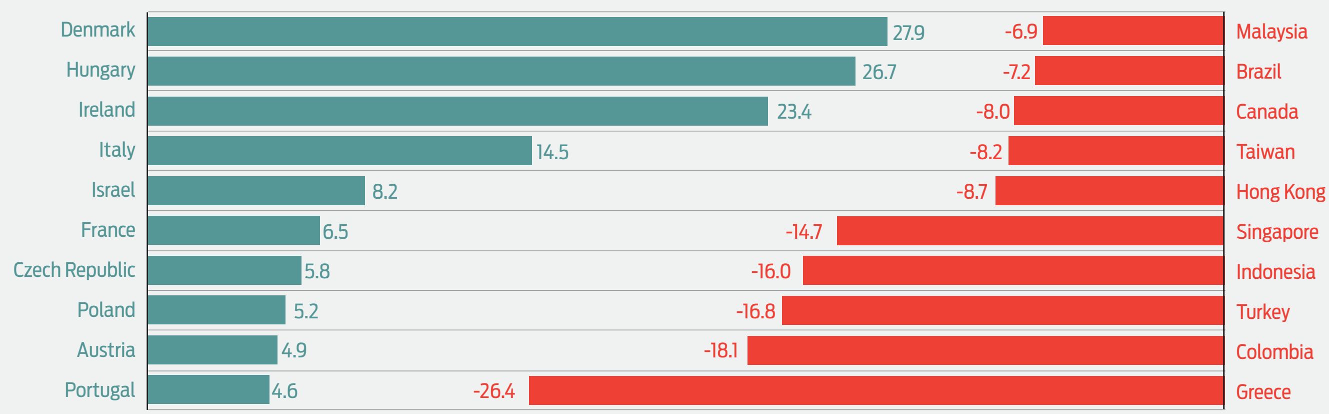
| COMPANY | EPIC | PERFORMANCE (%) |
|---|---|---|
| Aggreko | AGK | -32.2 |
| Standard Chartered | STAN | -33.2 |
| Petra Diamonds | PDL | -33.6 |
| Weir | WEIR | -33.7 |
| KAZ Minerals | KAZ | -35.2 |
| Premier Oil | PMO | -49.3 |
| Tullow Oil | TLW | -50.9 |
| Glencore | GLEN | -52.4 |
| Evraz | EVR | -57.1 |
| Lonmin | LMI | -84.0 |

**12 MONTHS ▼**

| COMPANY | EPIC | PERFORMANCE (%) |
|---|---|---|
| Anglo American | AAL | -52.0 |
| Vedanta Resources | VED | -52.2 |
| Weir | WEIR | -54.3 |
| Serco | SRP | -59.1 |
| Drax | DRX | -60.4 |
| Ophir Energy | OPHR | -62.0 |
| Glencore | GLEN | -62.8 |
| Tullow Oil | TLW | -72.6 |
| Premier Oil | PMO | -75.5 |
| Lonmin | LMI | -89.6 |

* Excluding Equity Investment Instruments, Nonequity Investment Instruments
Date to 14/09/2015. Source: Thomson Reuters Datastream

## GLOBAL MARKETS (%)

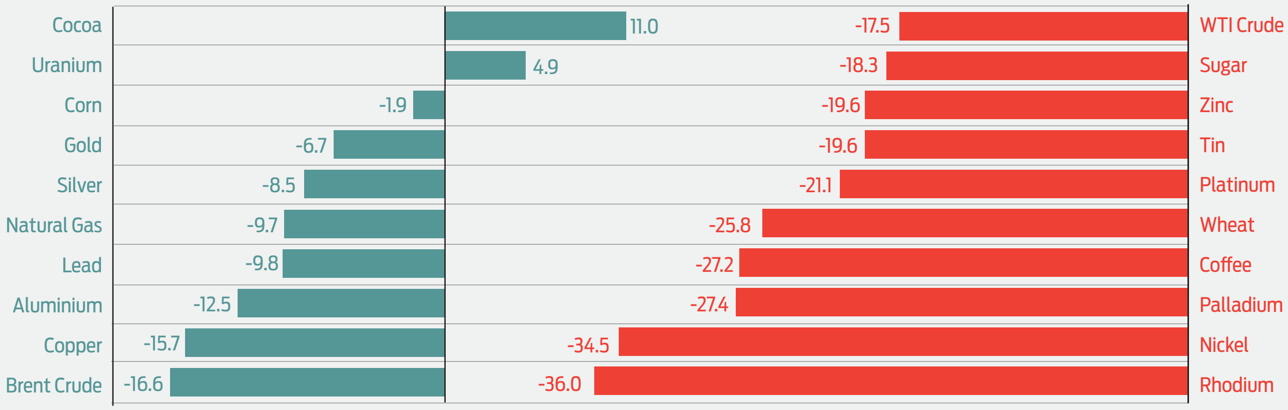



Covers period 01 Jan to 14 Sep 2015. Local currency terms. Source: *Shares*, Thomson Reuters Datastream.

THE BEST & WORST PERFORMERS

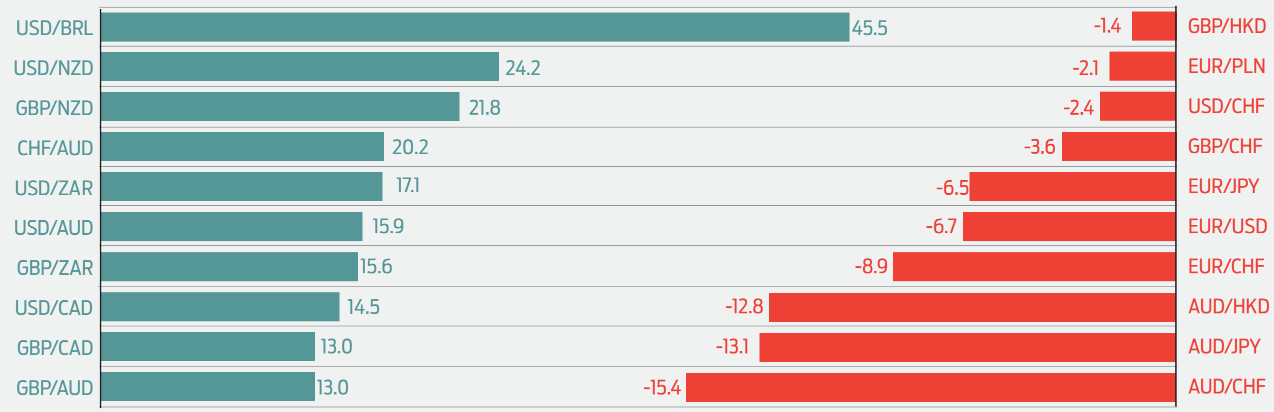
# DATABANK

## COMMODITIES (%)




Covers period 01 Jan to 15 Sep 2015. Source: *Shares*, Thomson Reuters Datastream.

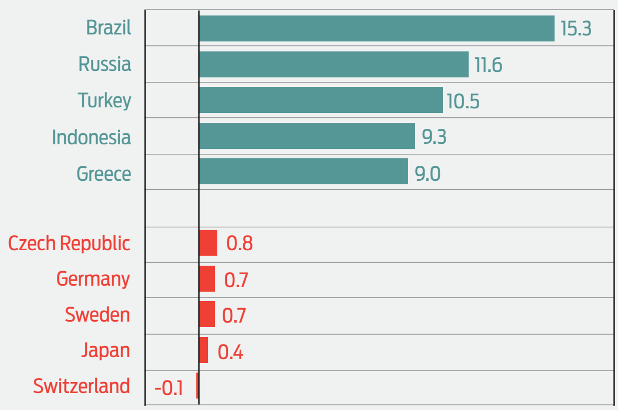
## FOREX (%)




Covers period 01 Jan to 14 Sep 2015. Source: *Shares*, Thomson Reuters Datastream.

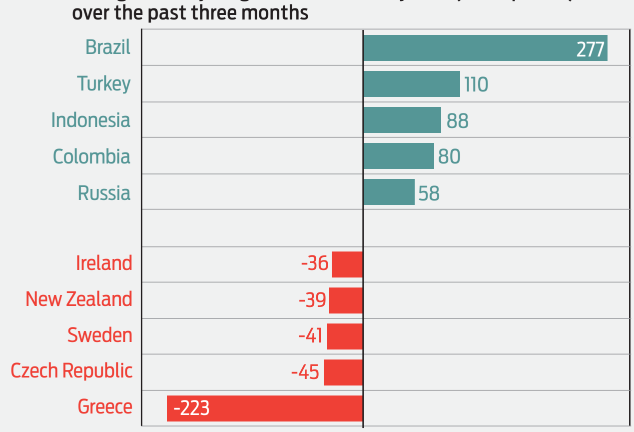
## SOVEREIGN YIELDS (%)

Ten-year government bond yields (%)




Data as of 14 Sep 2015. Source: *Shares*, Thomson Reuters Datastream.

Change in ten-year government bond yields (basis points) over the past three months




Data to: 14 Sep 2015. Source: *Shares*, Thomson Reuters Datastream.

# Investor services **guide**

## ONLINE TRADING

## ONLINE TRADING



## EXECUTION - ONLY TRADING



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